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REPORT

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The League of Champions final just took place in Kyiv recently. I personally don't watch football, so I wasn't paying much attention to how the teams played, but I watched the work of those who were responsible for security during this huge event: the police, the National Guard and the Security Service of Ukraine. Tens of thousands of agitated fans, hundreds of flights and nearly the entire downtown of Kyiv was a pedestrian zone. The scale was incredible – and Ukraine scored top marks.

This is a country that underwent a revolution four years ago and has been suffering a war ever since. Yet no one used the shortage of qualified personnel, the lack of a coalition, insufficient legislation, or upcoming elections as an excuse. The job had to be done, and done well. And so it was. This kind of mobilization demonstrates, not for the first time, how well Ukraine performs under difficult conditions.

What a pity, then, that when the mobilization factor disappears, we see a completely different picture unfold. In this issue of TRUMAN Report, our interlocutors talk about Ukraine's prospects, about how much has been achieved in the last four years, and how easily it could all be lost, now that elections are less than a year away.

The main concern is campaign populism and the long election cycle. First comes the presidential election, then elections to the Verkhovna Rada, and only after that will we see a functioning Government in Ukraine. Like most administrations, this one is not prepared to take unpopular steps just before an election, and so reforms are being moved to the back burner. Meanwhile, the cycle will continue for at least 18 months. The fact is – Ukraine simply cannot afford such a long break.

The most discouraging of all are the course of privatization and the country's lack of appeal to investors. Opaque rules, a dysfunctional court system, and the lack of desire on the part of the state to give up its main assets are killing the desire of investors to enter this market.

Against all this stands our main hope: Ukrainian business, which has managed to survive and rebuild under the most difficult circumstances. Ukrainian entrepreneurs are that class for whom the most important reforms are being undertaken. It's for them that the National Bank of Ukraine cleaned up and rebooted the lending market. For them that the EBRD has been investing. And with them that investors want to enter ventures. These active, demanding citizens care about where their taxes go and how their assets are protected. In the end, it is they who will change the rules of play. And Ukraine. ■

Ivan Vaneev
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FINANCE

MINIMIZING INVESTMENT RISKS

The financial sector needs further reforms to create a supportive environment for foreign capital.

A firm foundation has already been laid down: reform of the fiscal service, optimization of customs procedures, three-year budget declaration – all this allows an investor to enter a much more transparent financial system. Successful entry into external borrowing markets and the presence of significant investors like the EBRD in the country give a clear signal to international business: Ukraine has some unique offers that make it competitive on the international capital market.

International financial organizations give credit to our achievements in recent years. However, they continue to insist that without the protection of property rights, the creation of an anti-corruption court, the reform of the gas sector and maintaining a high tempo of implementation of reforms, the efforts of several years can easily come to nought.

The banking crisis has passed. The share of non-performing loans is still rather high, however, the coverage by reserves makes as high as 84%, and the positive dynamics in the restructuring of problem debts is obvious.

The Law "On Privatization" came into force. The privatization process, which has long been considered a failure, shows noticeable shifts. Experts estimate them differently: from calling it a profanity, which does not provide clear rules of denationalization, to the confirmation of progress, which will allow for privatization in accordance with the best world practices. Among several factors restraining successful privatization there are private interests, lack of guarantees of advisers' independence, pre-election factor, lack of political will. Speakers of TRUMAN Report also warn against repeating the mistakes of the 1990s when rapid privatization just consolidated existing oligarchic interests. However, everybody agrees: privatization is necessary, and now is not the time to restrain it. Under the conditions of an open and transparent competition, there will be a fair clash of the world's largest players over Ukrainian assets. ■



UKRAINE IN THE GLOBAL ECONOMY

**OLEKSANDR DANYLYUK,
MINISTER OF FINANCE OF UKRAINE**

THE FINANCIAL CLIMATE BECOMES WARMER

Several revolutionary steps have been taken by Ministry's team.

The first one is the introduction of VAT refund mechanisms. Why does it affect the business climate? Because it's about money owned by business. Unfortunately, corruption has long prevailed in this area, after the Revolution of Dignity as well. Therefore, we came up to the solution of the problem decisively and carefully: we developed a system that brought it to an end. Currently, the VAT returns to the exporter on time, in automatic mode, without the possibility of corruption.

The second one is the tax police were gradually eliminated over the year, and now we are initiating the creation of a new service of financial investigations. I managed to find the right arguments in the parliament and defend the non-renewal of the tax police. Deputies accepted it, but it was not easy.

Thirdly, we launched the reform of the State Fiscal Service. It concerns, above all, changes in internal processes: people without the right motivation, having the "business always guilty" approach, should free their seats for those who work in the interests of the state. Only through the development of the economy we will receive more revenues to the budget, not through squeezing out of what we have now to the maximum.

The fourth thing is that we made the first full three-year budget declaration. Why is this important? Investors see where the country is moving for at least three years' time. What reforms are planned, what we plan to achieve. And they know that this declaration is what the budget is built upon. We teach everyone that this is a new reality, and it will continue to be so. There can not be a step back here.

Reforms have also taken place in the customs system. This is, in particular, the creation of a single window that will allow companies to optimize the passage of customs control. Now the actions of all institutions – customs, food security, border guards – are adjusted, and work through one IT product. This means that subjective decisions no longer have the power – the algorithm works. And this is always better, because it allows you to make the border crossing fast and predictable.

Several loans have been issued from the European Investment Bank, which allows for a cheaper resource for the development of small and medium-sized businesses. There is also a separate program for the agricultural sector. The Ministry of Finance worked on this in cooperation with state-owned banks.

I also want to note that in September we placed Eurobonds worth a total of \$3 billion. The country that was in the active phase of war in 2014-15 was able to return to foreign borrowing markets in 2017. This successful transaction means that we have investors' trust. Both to the team that was preparing the placement, and to the authorities, which made such a number of reforms in a difficult situation.

UKRAINE ON THE CAPITAL MARKET

You do not have to persuade investors to enter Ukraine. Just tell what is really going on. Because there is a certain delay between the actual changes and how they are felt in the public sphere. Therefore, simply telling about the things that were done, you can expect a positive reaction.

We always use the phrase "Over the past four years, there has been done more than over the whole period of independence." Because it's a

fact. Despite the war, the economic aggression of Russia and the complexity of political processes, we can move forward successfully.

Investors used to believe in some kind of a story, they thought: once Ukraine has realized its potential, we will be able to earn on that. And now we are implementing it. So investors have the time to enter, to create competition. Then you will no longer need to persuade anyone, they will react on their own.

Now in the world there is competition for investment. There has always been one. Today Ukraine has some unique offers: there are interesting bonds instruments; I hope that after the launch of the land reform there will be a new proposal – the land; energy efficiency is also a unique offer in Ukraine with a market capacity of about 40 billion dollars. We have created tools that will allow investors to come and earn.

FINANCIAL MARKET LIBERALIZATION

The market is not free yet. Cleaning up the banking system was a priority, and it was done. The final step was the nationalization of PrivatBank, in which the Ministry of Finance played an important role. But we need to solve the problem of “bad loans”, clear the portfolios of banks and return to lending. For without it, the economy cannot function properly. This is the first constraint.

The second constraint that is being removed step-by-step is the withdrawal of capital from Ukraine. When in 2015 gold and currency reserves fell to historical minimum, it was decided to limit the capital outflow (and this requirement was also in the IMF). Now we have raised gold and foreign exchange reserves to almost 19 billion, and this is already a comfortable level.



Tymofiy Mylovanov
*Honorary President
of the Kyiv School of Economics*

Much depends on trust in the Government and on investors' understanding of the future political situation. If the expectation that the Government will carry out populist actions and not structural reforms prevails, then, regardless of the real situation, nobody will come here.

It is important for investors, when they invest money, to have the opportunity to take it back at any time. This is how the whole world works. Therefore, this restriction will be removed in the nearest future. In particular, after the implementation of the BEPS Plan. In this framework, we have to implement a minimum package this year in order to ensure that the money earned in Ukraine is kept and taxed here, and served the development of our state. We held talks with some countries on the amendments to the Double Taxation Conventions. These are Great Britain, Luxembourg, Cyprus, the Netherlands, Belgium. We also signed the FATCA – an important document that has struggled to be signed for many years. So, we are moving on.

BETWEEN IMF'S REQUIREMENTS AND DOMESTIC AGENDA

The actual result of the recent visit to Washington is that we fixed the position on a specific date. Key requirements of the IMF are the creation of an anti-corruption court and the solution of the tariff problem, in particular, the gas sector reform. After Washington, I was in the European Parliament, in the UN: the issue of an anti-corruption court is raised everywhere – both as a requirement of the IMF and as a matter of external reputation of the state.

Now it's quite difficult for us to work in conditions between the requirements of the IMF and the domestic elections agenda, and the slowdown in the reforms is apparent. However, it is important to have a global perspective, to understand where the world is moving. There are such feelings in Ukraine that the Fund is forcing everyone to do something: they give us loans to drive into a yoke. If



Goesta Ljungman
IMF Resident Representative in Ukraine

Our expectations are that the Government has to respect commitments they have signed up to. Yes, there have been delays: reforms are complicated, there are no blueprints for this. But if we really want to see irreversible turnarounds in the Ukrainian economy – stabilization, return to growth – the reforms are absolutely necessary, they must be carried out. In the Government there are people who understand that these things need to be done. I hope they will come out victorious.

you look globally, the role of the IMF is to make the world develop evenly, without imbalances. Because it leads to wars, conflicts. In the end, it's unfair.

Taking advantage of the fact that Ukraine is still a closed country, we are told fairytales about the “enemy” – the IMF, the capitalists, the conspiracy... But Ukraine is no longer a part of the Soviet Union. We are fully integrated into the international economy, so we must understand trends and be competitive.

We have trustful relations with the IMF, American partners, the European Union. I'm always open. Honesty. Trust. These are the main arguments in the negotiations with the IMF.

After the successful placement of Eurobonds, the plans are to enter free capital markets this year. But this a priori cannot be an alternative to the IMF tranche: its money goes to replenish the national currency reserves of the National Bank, and money from the placement of Eurobonds goes to finance the budget. This year, we have added 2 billion dollars to the budget from the placement of Eurobonds. Therefore, this is not a substitute. But it's interconnected. Investors are also following negotiations with the IMF, assessing prospects. ■





IT'S TIME TO START LENDING AGAIN

FRANCIS MALIGE, THE EBRD MANAGING DIRECTOR FOR EASTERN EUROPE AND CAUCASUS

The EBRD's plans for Ukraine in 2018 include dozens of investment projects and providing cheaper loans to SMEs jointly with Raiffeisen Bank Aval. What are the Bank's main priorities for this year?

The EBRD does about 25-30 projects a year in Ukraine, ranging from a couple of million dollars to several hundred million. They include infrastructure, industry, agribusiness and financial institutions. What we are trying to achieve in Ukraine, not just in 2018, but as our long-term goal, is to transform the country into an advanced market economy. Why? Because a market economy brings opportunities, wealth, productivity and prosperity to a country. We work in the public sector, because it brings prosperity to the private sector.

The private sector creates most of the value in a developed economy. But for the private sector to work, you need a public sector that works well, too. You can produce cars, but if people can't drive them because the roads are in terrible condition, you aren't going to sell as many cars as you could, right? And you aren't going to create as much wealth and value as possible.

We believe that Ukraine has tremendous potential, but it needs investment in both the private and public sectors. When we invest in the public sector, we also try to bring new financing mechanisms to it, because there is a limit to what a budget can achieve.

One of the specific objectives in 2018 is to see the concession law approved, which has already passed first reading in the Rada. The EBRD provided the Ministries of Economy and of Infrastructure technical assistance in drafting the bill. Once the law is in place, you can start projects. And the good thing is that this means private sector mon-

ey going into projects like ports, airports, roads, and so on. There is no need to take this money from the state budget. If you need to fix a port, for example, you can do two things: you can go to the Minister of Finance and ask for money, but the Minister's main job is to say no, in order to save budget funds. Or you can go to the private sector and find interested investors who believe in the economy's potential. And there are some. You just need to provide them with a proper legal framework so that they can invest. That's what this concession law is doing for infrastructure.



*You needn't wait
for the bank to be perfect.
You wait for the bank to be good enough*



We do need overall improvement in the business environment, which means less red tape, more protection of the property rights, and less corruption in the courts. That's why the anti-corruption court is so important.

A previous TRUMAN Report quoted you on the slowing down of reforms as elections approach. What is happening with this tendency now?



The political agenda is always important. Once you have achieved something, there is a danger of becoming complacent. There were a few dramatic years when Ukraine had no access to capital markets. And then things improved enough to get access to them again. The point I was making is that now is not the time to be complacent. It's time to pick up pace. Ukraine can move forward and go faster. There are some clear achievements: the Privatization Law, improving corporate governance at Naftogaz, and pension reform legislation. But in other areas, to be frank, people are dragging their feet. I'm not involved in Ukraine's politics, but I understand the imperatives. It's very important to take a long-term perspective and to make decisions that are for the good of the country. The Ukrainian people understand this.

Today the share of state-owned banks in Ukraine is an unprecedented 50%+. How long will it take to optimize the business model of these state-owned banks so they're ready to be privatized?

It's a difficult question, because you don't optimize a business model in order to be privatized. With a state-owned bank, there's often a temptation to use it for local projects supported by local politicians or for strategic projects supported by the state. In fact, banking is a business. For a bank to work, business decisions should be based on the basis of risks and rewards. That's the only way in which a banking industry works well. And so it's probably better to have a larger share of banks in private hands. But it's also important for some banks to remain state-owned, such

as export-import banks. I think the question is when the banks are going to be ready for privatization, meaning when they can attract some interest. I think that, of Ukraine's state banks, Ukgazbank is more or less ready to be put on the market, as is Oschadbank. UkrExim is less obvious, because it does play a major role in exporting and is linked to the defense industry. As to PrivatBank, it has gone through a very difficult period and lost essentially its



entire corporate lending portfolio, so it needs to recreate its balance sheet and establish a sound lending business. Once this is done, it may be ready for privatization. In the case with Privat, I think that will take around 3 years. I don't expect to see the privatization of Privat before 2021. In the case of Oschadbank, it could be sooner. The point is that you needn't wait for the bank to be perfect. You wait for the bank to be good enough. Establishing good corporate governance is a relatively cheap way of doing this.

What do you think is Ukraine's main achievement in the financial sector during the last six months?

The appointment of the National Bank of Ukraine Governor.

Your estimation of the National Bank's work during the last difficult years is high. How consistent do you expect the NBU's policy to be, after the appointment of Yakiv Smoliy?

I expect it to be very consistent. I don't mean that they will blindly continue the same line as their predecessors, but I think that the National Bank is on the right track, in terms of cleaning up the banking sector, managing monetary policy, and so on. That's recognized by everyone. Now we have a Governor approved by the Rada. It's not an easy job, but I expect that he will continue along the same lines.

Under the right conditions, EBRD might consider putting capital into PrivatBank and Oschadbank. Does your Bank see

signs of a complete recovery in Ukraine's banking system coming soon?

Assuming that the country remains on track with the IMF and on a good path in economic management, I don't see a banking crisis ahead. It's behind us now and it's time for banks to start lending again. Many of these banks will actually need new capital. We are already shareholders in two large banks in Ukraine, Ukrsibbank and Raiffeisen Bank and



we could become shareholders in a few more, possibly even in the state-owned banks. Part of our work is pre-privatization support for state-owned enterprises. How do we do that? One of the options is to take a minority stake, say, 10-20% and then work together with the management to improve compliance, risk management and governance. And then, after a few years, we help organize a transparent privatization process: sell it on the market or find a strategic partner. That, of course, is all discussed with the Government.

PrivatBank's debt to the NBU for refinancing loans is over 10bn hryvnias. How likely will that money be returned? How does the EBRD work with non-performing loans?

We do work with non-performing loans, but we need the right laws in place. When a loan is non-performing, you have to understand why. Maybe there has been fraud and the money has been lost. There was something like kind at PrivatBank, as we all know. But sometimes the loan is non-performing simply because businesses are struggling, so they need to restructure and they need a bit more time. They may have taken a loan for 5 years, but, in fact, they need 7 to repay. Maybe they need to sell some assets. But it's important to understand the nature of non-performance. Sometimes it's better to renegotiate rather than simply push the borrower hard. There is a misconception that if you haven't renegotiated a loan, you haven't lost the money. Sometimes a better way to recover most of your money is to renegotiate the loan, meaning giving up some of the prin-

ciple. That enables the borrowing company to restart.

In the case of PrivatBank, it had to be nationalized. There were significant commercial losses, related party lending, and so on. But clearly, recovering the depositors' funds is a long-term effort.

In the Energy section of the TRUMAN Report, we are emphasizing gas extraction. To achieve the strategic goal of energy independence, Ukraine needs technology and investment. The EBRD is working with Naftogaz to reform the company. Will this attract more investment to gas extraction?

We support reforms aimed at making a transparent gas market in Ukraine. For the gas market to work well, gas transit needs to be independent. That's what is called unbundling. Unbundling actually means, in the context of the EU directives of the Third Energy Package, separating transit. Either the extraction or production, or the distribution must be run by separate entities. How do you achieve energy independence in Ukraine? Firstly, you can produce more gas or you can consume less. Ukraine is one of the most energy-inefficient economies in Europe. It's not just about pumping out more billions of cubic meters out of the ground. It's also about making sure that central heating works well. A district heating company can reduce energy bills by up to 60% after upgrading its network for generating and distributing heat around a city. Energy efficiency matters a lot. Consumers should be interested in it simply because they are paying the bills, and their main objective should be to invest in energy-efficient solutions in order to pay less.

Also, if you have a regulated rather than market price when you produce gas and you have to sell it to the domestic market at this price, investors aren't going to be very interested. Such a business model is not sustainable. FDI is needed in this sector to bring innovations, technologies, know-how and capital.

You were in a privatization working group headed by Minister Sayenko. How systematic is the work of the government on the launch of big and small privatization?

The privatization process has effectively failed.

However, there is some progress today: firstly, we have a privatization law that has been approved and signed by the President. It allows Ukraine to conduct privatizations in line with best practice. Evaluation of assets no longer has to be conducted according to post-soviet principles. It might seem funny, but these are very different from the ones that investors are looking for. It's now possible to use English law for privatization contracts. The process is more transparent. To privatize well, you need transparency in the assets you are

going to privatize. Every company has some difficulties, and it's better to be straightforward about them rather than let investors discover them at the due diligence stage. Surprises in such cases are always bad surprises. You also need transparent buyers and a transparent process. Evaluating a company for privatization is a huge effort for investors, so they want to know that they are not wasting their time. They are happy to fight, but they want to know it's a fair and square fight and an honest competition.

Secondly, you need a decision-making process that works better. With this new privatization advisory group Ukraine has a better process than before. It's time to move. The list of enterprises to be privatized is being drawn up. There will be discussions about this at the working group. I hope that the results are good, as that will be a major achievement for Ukraine. As to bringing more investment to the

country, privatization is a great vehicle, if it's done properly, to put the country back on the map for investors.

What do you see in Ukraine to reassure the EBRD that the changes it supports will be successful?

We try to bring solutions that are adapted to Ukraine. I think that Ukraine is a country of absolutely astonishing talent and entrepreneurial spirit. It's a question of freeing it and making sure that people feel that it's worth their time and effort to start a business here. In order to succeed, you have to work very hard. And people want to know that if they are going to work so hard, they will be able to enjoy fruits of their labor. That is what we are aiming to help with – to establish a better business environment. Not only for entrepreneurs themselves, but also for the sake of the jobs they create and the country as a whole. ■





WANTED: LEGISLATION TO REBOOT LENDING

KATERYNA ROZHKOVA,
DEPUTY GOVERNOR OF THE NATIONAL BANK OF UKRAINE

What is the NBU total amount of bad loans and how are they restructured?

The total NPL (“non-performing loan”, “bad loan”) is about 54%. High levels of NPLs in the structure of the loan portfolio of PrivatBank and Russian financial institutions significantly affected the index. At the same time, I would note: private Ukrainian banks, including foreign capital, have reached the level of 30% of NPLs and we see a positive dynamics in the restructuring of bad loans. It is worth saying that the NPLs are reserved and the coverage level is 84%. It’s good.

Is there a significant difference in the percentage of bad debts depending on the type of banks, form of ownership?

Of course. Considering the banking system as a whole is wrong. It is clearly segmented and each of the segments has its own nuances.

The first separate segment is PrivatBank. Here, almost all of the corporate loan portfolio is one large NPL. Its level is 86%. And this is not a classic NPL, it is not subject to standard approaches to working with problem debts: Privat has been working with it in the London court, has filed lawsuits against PwC, the former owners. Today Privat gradually credits

private entrepreneurs, small businesses. The proportion of non-performing loans will decrease statistically, but their volume will not change until the full recovery.

Another segment is the Russian banks. In them NPLs are at the level of 71,5%. This is also a rather high figure. The problem is the status of these financial institutions: they belong to the aggressor country. They had borrowers in the Crimea and in the ATO zone. And the part that lives outside these territories enjoys the moment: the patriots do not pay to the banks of the aggressor country. But these borrowers forget that they have been credited by Ukrainian depositors. Since the status of Russian banks is

uncertain at present, because they do not have the potential here because of the geopolitical situation, it is difficult for them to find buyers. The situation is delayed, debts are not served. A positive thing is that VS Bank is sold, from BM Bank we already have a decision on self-elimination. Next in line is VTB Bank. There remain PIB and Sberbank: they have an ability to curtail under the control of the NBU and the Deposit Guarantee Fund, but not for sale – we do not see the buyer.

The next group is other financial institutions with foreign or Ukrainian capital. The average level of NPLs in them is 30%. Moreover, the main volume of the NPLs is concentrated



It is easy to trace the transfer of power in the country by the loan portfolio of the state-owned banks



in banks with Ukrainian capital, which did not recognize problem loans back in 2008 (as did banks with foreign capital – Aval, BNP Paribas, OTP Bank) and, accordingly, did not restructure them.

How do Ukrainian banks now get out of this situation?

Local restructuring processes take place. But many banks, in order to eliminate bad loans from the balance sheet and not to be capitalized, are charging a mortgage and taking this mortgage on their balance sheet. It is alarming. The first risk is in the revaluation of assets. The second is that banks instead of being credit institutions turn into asset management companies. And assets do not pay interest and do not give a cash flow, so the situation can lead to a loss of liquidity and capital. Therefore, the NBU requires banks to provide a marketing plan for the sale of these assets and convinces that even a discount restructuring is sometimes better than taking assets on the balance sheet.

And what is the situation with the rest of the state-owned banks, except Privat?

Of course, Privat was a big blow to the budget. But believe me, Oschadbank is not less of a problem. Only at the end of last year we agreed upon additional capital of 5.75 billion because of deterioration in the quality of the portfolio.

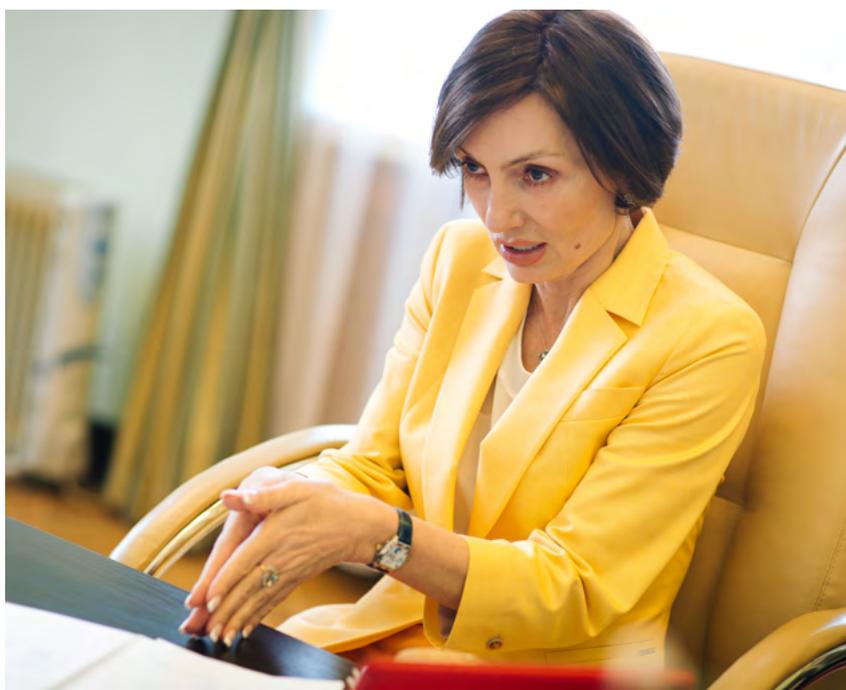
The only one in a good position is Ukrgasbank. The rest have a high level of NPLs and by their loan portfolio it is easy to trace the transfer of power in the country, which business groups were credited. There are two problems. The first one is TOP-20 borrowers form more than half of all NPLs. Usually, if they have a loan in Oschad, then there is also one in Exim. Several loans with different mortgages are difficult to restructure. The second is the representatives of the business groups that occupy the lines of Forbes. They, apart from declarations of readiness, do not consider it necessary to serve debts in state-owned banks, or even begin a dialogue on this.



*Not interest rate creates
a problem for the restoration of crediting,
but the problem of legal risks*

How strict will be the NBU's position on restructuring these debts?

Of course, the NBU has levers of influence on Oschad and Exim: through not approving the increase in capital for them. They have Polischuk, Bakhmatyuk in a non-served portfolio.



Please declare their default and start the claims. Press the borrower, as a commercial bank would do. And when there is no pressure on the borrower, when you say that you are in the negotiation process with them, and so it lasts for four years – they are not going to pay anything back and you can do nothing. At the same time, you ask the National Bank to confirm for the Cabinet of Ministers that you need capital. Not confirming the capital, you can force banks to work.

What laws does the NBU lack to deal with problem loans and is it possible to adopt them with the current composition of the Verkhovna Rada?

The NBU has a number of opportunities to push the banks towards restructuring. But we have no influence on their counterparties. And this is a problem. In order to solve it, we, together with the EBRD and other consultants, have developed a bill on companies dealing with problem debts management. The idea is simple: to

it affects the economy, but has been hit by the crisis and has a high level of NPLs. If banks decide to bring it to bankruptcy, they can literally break it into pieces. However, if this company agrees with banks, then it will be possible to restore solvency. To restore its solvency, it needs working capital, and it cannot get it ... Circle is closed. It is here that another company should come that is ready to offer it a tool for recovery.

The EBRD is waiting for the adoption of a law that will enable the establishment of such companies. This is a real business that will enable investing in the Ukrainian economy. Only this year they have invested up to 300 million euros in creating similar companies in Eastern Europe. But the law was curtailed in the depths of the committee.

What is preventing banks from fully restoring crediting and how to eliminate these obstacles?

The average price of deposits of individuals in UAH is 13.6%. The average rate of return on loans to legal entities is 16.3%. The situation is normal. I am convinced that no interest rate creates a problem for the restoration of crediting, but the problem of legal risks, from which the banks are trying to protect – put them in the rate and the commission. But if they adopt two laws – 6027-D and 2456-D, on protecting the rights of creditors and protecting the rights of consumers of financial services – banks will reduce risks. I consider the need to adopt these laws as critical.

We already see a revival in the banking sector – in consumer lending, business lending. Maybe it is not so noticeable statistically, in absolute growth, because the bad debt write-off is continuing. But banks carry on lending. ■



enable any potential investors to create such companies and, with the help of them, to buy out bad loans. Or look for potential buyers. Or help banks to restructure these debts.

I'll explain how it can work. Imagine: there is a real oil company operating in the market,

PRIVATIZATION AND ITS PITFALLS

**ERIC HONTZ, PROGRAM OFFICER
OF THE CENTER FOR INTERNATIONAL PRIVATE ENTERPRISE (CIPE)**

Privatization is good in theory, but as they say, the devil is in the details. A small minority of people in Ukraine say that state companies are good, and we should keep these state companies. However, the big question I have concerns the process of privatization. If you look at the law on privatization, the role of the State Property Fund is central – but public trust in that institution is very low. What's more, smaller privatization is farmed out to local and regional SPF offices, which are even less transparent and less trusted. There have been 4 or 5 corruption scandals in the past year or so involving SPF officials. So, if you are having this institution be so central to the privatization, that's a huge problem from the start.

The next problem: look at Ukraine's recent privatization experience with the Odesa Port-side Plant and its failed privatization. You need to have good due diligence. Having experience performing due diligence on complex investments I understand how deep you have to dive to understand the relationships between debtors and equity holders and all the other obligations. If these relationships and obligations are not transparent and clear, you aren't going to attract the best and highest price for the enterprise.

The current law defines the role of advisors – I think it's #24 in the definitions – but it doesn't state that they must be independent. They can't bid on the project that they are advising on, but there's no guarantee of their independence and no oversight or limited liability in place. What if you have an advisor say, "That looks good to us!" And you privatize and then – "Oops, actually Kolomoyskiy owns 30% of this company and we didn't know that." That's going to blow up the whole process. Who does the follow-up now? Does it go back to the SPF? Is it the advisor's fault if the advisor took a substantial fee? Also, who's paying the advisor? Is it state funds, the SPF or international donors? None of that is explicitly written in the law. Maybe it's decided at the SPF or the Ministry of Economic Development and Trade, but that's also not guaranteed.

The next question is, what's the supply coming onto the market of these privatized assets, versus the demand and the capital that is willing to absorb that? Some state enterprises have been used as piggy banks for years and they may have a lot of tricky legal entanglements. I asked acquaintances working in private equity here, "What do you think about investing in Ukrainian assets?" And they just looked at me like, "No. That's not even on our radar." Ukraine has extremely high political risk and extremely high orga-



nizational and sovereignty risk, with Crimea and Donbas. That means you must have a very high premium. So, if you just shove a bunch of assets onto the market, they aren't going to be bought for a decent price – if they sell at all. They only assets that sell will be those bought by people with insider knowledge, so you're going to perpetuate oligarchic interests, that's all.

What would I do? Instead of having this process as it is now, because there is little trust in the SPF, you need to have some sort of international triumvirate or arbiter of quality – the IFC, IMF, World Bank, EBRD – that will say,



*Some state enterprises
have been used as
piggy banks for years*



"We stand behind this particular privatization deal." You involve the SPF in some capacity, of course, because these are Ukrainian assets after all, and Ukrainians should be very involved in this process. The body that's outside

of the SPF should then undertake the privatization process rather than have it handled by the SPF.

Where I think the law gets it right is to have it in two tiers of privatization, those above \$10 million and less than \$10 million. That's a good acknowledgement of the practical limitation of the market and it's more efficient to organize online auctions for smaller assets. My concerns return to the governance of the process rather than the process itself. The governance of the process will influence the outcome, so, having a high trust institution control the privatization process would give more credibility: one, to the Ukrainian public, that this is going to be a fair process and, two, to international investors that the organization set up to handle the privatization will have enough investigatory powers to do deep dive due diligence on these assets so they can have faith in it.

The other thing is that I believe an investor would like to see included in this law, or for any kind of privatization, is something that will quash future claims. For example, say I buy an operating company, and all of a sudden, someone runs up and says, "This firm you just bought owes me \$15 million in back orders." There needs to be a time during the due diligence process where you close a window for creditors to make their claims. After a specified date, it's over: you can't make any claims after that and if you were to make a claim no court would recognize it. As the privatization proceeds you must have a clean cut from the past. Quashing claims is the only way that I believe that the Ukrainian government can attract investors, other than Ukrainians who already know what's going on. This risk has been demonstrated more than once, not just with the Odesa Port Plant. You also need the Ukrainian state to underwrite the investment – to act as an insurer.

With a smaller assets, I agree with the government's instinct to get it off their balance sheet as fast as possible. If there turn out to be claimants, the Ukrainian government could set up an independent arbitration process, or something along those lines, as long as the process is transparent. I generally agree with the Ministry of Economic Development that, especially for the larger companies, it must be a "governance first" process, and must proceed along the lines of the corporatization of Ukrposhta and Naftogaz. All these large companies – slated for privatization or not – should be managed in a business-like, market-oriented fashion. It should be run at a profit, professionally managed, and offer quality services to Ukrainian citizens. ■

PRIVATE INTERESTS VS PRIVATIZATION

ANDRIY BOYTSUN, SOE REFORM AND PRIVATISATION ADVISOR, SAGSUR

For Ukraine, privatization is a necessity. There are too many assets in state ownership, and this is abnormal. The state should focus on policy development and regulation.

Privatization should not just take place in order to attract funds to the state budget (in 2019, about UAH 22 billion of privatization proceeds is planned – it is 2.5% of the total planned revenues of the state budget). Privatization solves the problem of the efficiency of state-owned enterprises that are in decline, are becoming worse tax-payers, absorb state subsidies and debt write-off's. Secondly, state-owned enterprises in Ukraine are the largest source of corruption. Accordingly, by selling them, we will get rid of this source. In addition, Moreover, a foreign investor often has sales markets in other countries, that is, attracting such an investor through privatization can develop exports.

What is on the agenda today in the process of privatization? Has there been a shift over the past six months?

There is a shift. Firstly, a new, quality Law on Privatization was adopted. For specific steps to direct the State Property Fund, the Privatization working group has been reformatted, which provides recommendations to the government on key issues. Recently, the Cabinet of Ministers has approved a list of large enterprises for privatization. However, making the list is not so difficult: it is necessary to select those enterprises whose assets are valued at an amount in excess of UAH 250 million, to remove the prohibited ones for privatization by law – and there will be not so many. There is a need for privatization schedule for each of these large enterprises. After all, the beginning of the privatization process of an enterprise is not just declaring its sale. This means hiring qualified advisers who will study the situation, determine what and for how much should be sold, outline the company's problems. And these problems must first be solved.

Centerenergo, Turboatom, Odessa Port Plant, UMCC, Electrotyazh-mash, Ukrgasbank, President-Hotel are the first candidates for privatization. It is necessary to formally approve the schedules for each of these enterprises and closely monitor whether the preparation goes according to this schedule. Centerenergo advisers are already seriously preparing for privatization



*The state
should focus on policy
development and regulation*



What are the top three restraining factors of privatization in Ukraine?

The number one is definitely private interests. It happened not only in Ukraine. People who profit from state-owned enterprises will not want to give up their positions straight away.

The second factor is situational. In Ukraine, this is the upcoming elections. There will be presidential elections and then parliamentary. When elections are approaching, people are not prone to fundamental decisions.

The third factor is political will. The population does not approve of privatization. Therefore, from the sale of a state asset a politician does not become more popular.



Can a successful case become a driver for successful privatization?

Certainly. One successful sale will give a positive shift to the entire process. But if it is going to be sold to a landmark investor, not to a Ukrainian oligarch. Such a sale proves the very ability of the authorities to effectively privatize. In Ukraine, Kryvorizhstal was marketed in 2005, in a competitive, civilized, open, transparent way. But until now, it probably has been the only successful example.

What results in the privatization process can be predicted with a high probability of implementation by the end of 2018?

The first thing is the start of small privatization. We already have a large number of successful examples of assets from the Deposit Guarantee Fund – there is ProZorro there. The sales were “traded” at the amount of about 8 billion USD per year. And the State Property Fund has sold for the total of 4 billion UAH for 4 years.

The second one is large privatization. At the very least, preparation by advisers for the privatization of several enterprises should start, at best – passing the first tenders. Centerenergo has a real chance of being sold this year. Here, as expected, there will be more interest from the “third world” countries because investors from these countries are less restricted by environmental standards.

We must understand that today in the world there is free money for investing. But the number of those who want to invest will not always be the same as now, so you need to seize this important moment. ■



10 IDEAS ABOUT PRIVATIZATION

**IGOR MAZEPA,
CEO CONCORDE CAPITAL**

1. The current privatization process in Ukraine is a true profanation. It does not fulfill the main function – does not provide honest and clear rules of denationalization. And for the investor, the transparent terms of privatization are fundamentally important, with the starting price of \$1 for any asset. And then... the asset should be picked up by the one who will offer the best price.
2. The State Property Fund does not make strategic decisions on the privatization of certain objects. They are approved at other levels.
3. As for amendments regarding the indirect beneficiary, which are envisaged by the new Law “On Privatization”, I consider them to be very positive. Foreign banks will make their KYC process (i.e. – know your client) much tougher and more correct than officials. But even this is unlikely to be the cause, a trigger or a good reason for investors to invest in Ukraine and will attract mega investment or interest. Although technically it will make the process of possible privatization more convenient for those who would not like to open up here.
4. If we are talking about big strategists, they have their own motivation to come here. As far as “portfolio” people are concerned, for them, indeed, the role of intermediaries and banks is more attractive.
5. By and large, the Law “On Privatization” has not added anything. If there is no privatization, then even if you dance around the dead, you cannot bring them back to life.
6. The fact that Russian capital has been banned from participating in privatization has simply legitimized the already established practice and mood of Russian investors. They understand: they are not, to put it mildly, welcome. So whether you forbid or not – they are not here.
7. Over the past year, the Chinese interest in Ukrainian assets has increased significantly. There are good prospects that they will become one of the largest investors in our country. The horizons of their planning are much longer and wider than of any traditional investor in the Ukrainian economy.
8. The National Bank team made a megawork so that investors would come and feel comfortable here. Valeriya Gontareva left behind a clear and transparent, clean banking system. Now there are technocrats in cooperation with international organizations.
9. For private players, it’s important to focus on the presence of the significant investors in the country and their activity. Such as the EBRD. The very fact that the EBRD invests billions in Ukraine is a good sign for them. In addition to money, it also introduces the best western practices of corporate governance, social responsibility, all the new positive trends of the modern world.
10. I am convinced that if there is a desire, a clear, open and transparent competition, world’s largest players will come here: to Turboatom, Elektroyazhmash, Zorya and Centerenergo. And not for a penny, for sure. I think there will be serious competition for these assets. And the price will be marketable and adequate. ■



*If there is a transparent
competition, world’s largest players
will come here*



TOP-5 ACHIEVEMENTS

- » The coming into force of the Law "On Privatization"
- » Stable work of the automatic VAT refund register
- » Appointment of the Governor of the National Bank of Ukraine
- » Approval by the Government of the updated Principles of Strategic Reform of the State Banking Sector
- » The beginning of the return to lending by the banking system



ENERGY

GAS EXTRACTION: TAKEOFF RUN

Ukraine is regarded as the most attractive among the gas-producing countries of the Eurasian continent. At the same time, only 2% of proven reserves are extracted annually, which is three times less than the potential. In the conditions of the critical need to obtain energy independence, gas extraction deserves special attention.

Industry needs technology and investment. A hindrance to this is the non-transparent mechanism for the allocation of new sites, as well as the actual sabotage by the State Geonadra of auctioning licenses for these sites and the refusal of local councils to provide special permits for their development. Investors need access to geological information and further alignment of national legislation with current market rules.

At the same time, since the beginning of the year, the conditions of work in the industry have improved significantly. The deregulation law was adopted, the fiscal regime for new drills changed, rent is decentralized – 5% remains in the regions where extraction takes place. Innovations encourage local communities to cooperate more willingly with the industry, and investors are freed from the main deterrent factor – unpredictability.

The effects can already be seen: according to the results of the first three months, the amount of drilling of new gas wells has almost doubled. The interest in the Ukrainian energy sector of foreign investors, especially Chinese ones, has increased. State-owned and private gas companies are using new technologies, working on increasing the volume of geophysical research and planning to multiply extraction. ■



WAITING FOR GREEN LIGHTS

ROMAN OPIMAKH, EXECUTIVE DIRECTOR OF THE ASSOCIATION OF GAS PRODUCERS OF UKRAINE

CHANGE IN WORKING CONDITIONS IN THE INDUSTRY

This year, the domestic gas-extracting industry has undergone dramatic changes. The first important step is the new fiscal regime. The introduction of incentive taxation for the drilling of new gas wells has greatly improved the investment attractiveness of the industry. According to international experts, Ukraine has the most attractive position among the mining countries on the Eurasian continent. The state guarantees that it will not change rental rates for new drills for at least 5 years. The factor that frightened investors and internal players in past years is minimized, it was unpredictability. Now the tax regime is stable and attractive.

Also, since the beginning of 2018, the decentralization of rent began to operate. It is about deducting 5% of rent for places in those regions where extraction takes place. Local communities get financial incentives to work with the industry, and we believe that this will facilitate the allocation and approval of new areas for companies by regional councils.

Another revolutionary change concerning the basic legislation is deregulation and a significant improvement of the permit regime. The law that passed in March this year brings Ukraine closer to the leading international standards of the licensing system in the field of gas production. Now the permit procedure has been reduced for at least 18 months, more than 15 permissions have been canceled, 6 stages of duplicate approvals are eliminated.

THE SITUATION WITH GETTING SPECIAL PERMITS FOR THE USE OF SUBSOIL

For the arrival of a foreign investor you need new sites, access to the subsoil. The situation in this area is currently alarming. In particular, the

Poltava region has not granted permits for three years already. Against 76 refusals there are two approvals: disappointing statistics are not in favour of subsoil users.

We believe that decentralization of rent will encourage the regional councils to be more constructive. Oil and gas do not belong only to the Poltava people, it is a resource of national importance. If the situation does not change, we will address the central government, because the achievement of the strategic goal – Ukraine's energy independence – is impossible without the allocation of new areas for development. If there are barriers and obstacles that impede all important reforms, then they need to be addressed.

There is only one big barrier – holding open auctions and offering new sites. At a time when the struggle for attracting investments in gas production continues in the world, and every year the countries offer tens of thousands of square meters in bidding, in Ukraine there have not been any auctions for over a year and a half! Unfortunately, the fact that they do not take place is the sabotage of certain government agencies. And at the same time is the evidence of a double standards policy. Currently, legislation provides for the possibility of granting special permits outside the auction. Statistics are impressive: over the past 18 years, 92% of all areas have bypassed open, transparent bidding! We are categorically opposed to opaque and non-market mechanisms that make it possible.

We expect that the first international round of oil and gas auctions will be announced shortly. Companies operating on the market are ready to offer 50 sites with a total area of more than 15 000 sq. km to be auctioned, to participate in a transparent and open auction on equal terms with foreign investors.



THE INDUSTRY HAS TO REPORT TO THE COMMUNITY

The Association supports the Extractive Industries Transparency Initiative, which operates in many countries. According to the standard, the industry reports not only to the state but also to the community about how much taxes have been paid, how many licenses are provided by the company where the extraction is made and how many jobs are created. Starting from 2015, all companies of the Association, which is the 8 largest gas companies in Ukraine, voluntarily report according to the international standards of transparency of EITI.

THE INVESTOR CANNOT WORK BLINDLY

We were the initiators of the disclosure of state geological information. Now there are 175 thousand reports, mostly from Soviet times, which are difficult to use. For the outside world, there is practically no such information. Investors are offered to enter blindly.

We understand the importance of disclosing geological information in an accessible, commercially attractive form. The investor should visit the site and review the information on the primary geological information – seismic, the number of drills on the site, data on



*This year we expect
7% increase in gas production*



the core, etc. Such information should be available both for vacant, unlicensed sites, and for existing licensed areas. This is normal. There is also secondary information, already interpreted, when experts in the 70-80's of the XX century analyzed the original material and made conclusions. But foreigners do not trust these findings, they need to reanalyze.

Crazy funds are invested in the industry. One drill costs from 3 to 15 million dollars. Prior to drilling, it is necessary to perform a considerable

amount of work and it happens to be useless, because on the new site of the three drills, two can be empty. This is a huge risk. Therefore, the investor needs guarantees to invest in this business.

A normative government act on the disclosure of geological information has been ready for more than six months. We took an active part in its development together with the Ministry of Ecology and Natural Resources and the State Regulatory Service. We expect that it will finally be submitted for consideration by the government, approved and made public, at least in the wording that will accommodate everyone on the market. I believe that a common position has been found and we have heard each other.

POSITIVE SHIFTS WILL AFFECT NUMBERS

Last year the oil and gas industry paid UAH 75 billion of taxes. This is 10% of all government revenues. If we extract not 20.5 billion cubic meters of gas, like last year, but 27-28 billion as planned, and increase production by 35%, Ukraine will experience a multiplier effect. Related industries will be involved: cement and pipe production, service, industry, etc.

This year we expect an increase in gas production by 7% (last year it was 2.4%). Positive process is started. It is an impossible situation when today the law is adopted, and tomorrow everything is working perfectly. Gas extraction involves contracting, tendering, site preparation and drilling. All this takes time. The industry has been waiting for changes for a long time and we already see the results of reforms. According to the results of the first quarter, the number of drilling of new gas wells in independent gas-extraction enterprises has almost doubled. It will also affect the growth of production volumes.

Today, we call on the Government and the President to come forward with a public initiative and invite international companies to Ukraine, while providing specific proposals for development sites.

International capital is ready to invest. But we must assure it that the rules of the game are transparent to everyone and will remain the same. Companies are interested in the arrival of new players, because it is international experience, new technologies that enable you to work better, to extract more and faster. The current pace is not satisfactory enough. Ukraine annually produces only 2% of proven reserves. In the world, this figure is at least 6%. Thanks to new technologies and innovative methods, company management achieves a multiple increase in efficiency. We are optimistic about the future. ■

NATURAL GAS, NOT SOCIALIST SLOGANS

OLGA BIELKOVA, PEOPLE'S DEPUTY, DEPUTY CHAIRMAN OF THE VERKHOVNA RADA COMMITTEE ON FUEL AND ENERGY COMPLEX, NUCLEAR POLICY AND NUCLEAR SAFETY

In April, the deputies of the Poltava regional council once again refused to agree on the issuance of new special permits for the two oil and gas fields that UkrGazVydobuvannya was planning to obtain. Thus, for three years, the regional council has not approved any special permit for the use of subsoil for the company. What is lacking at the state level, in addition to political will, to stop the confrontation of the state-owned company with state bodies? And how much does the state budget lose as a result of the situation?

Local communities have reservations in all countries where extraction takes place: environmental, financial, infrastructure is damaged, and so on. But Poltava...

Prime Minister Groysman has twice had methodological educational talks with local deputies in my presence. They behave unreasonably and non-strategically when they deny the largest state-owned company. First, they lay the groundwork for lack of funds in the coming periods, because gas production has a declining trend in the field of sustainable deposits. It is such a business, where you need to constantly drill, to invest, the effect of which is not only measured in rents. Secondly, they hope there to give these deposits to "their" companies. But we will definitely do our best to ensure that no "their" gets it. For today UGV (UkrGazVydobuvannya) is the only company that produces and sells gas for the population. Thus politicians in Poltava fool their own voters twice: 1) they do not receive money from the distribution of rent; 2) the less gas there is on the general market in Ukraine, the higher price is for people from Poltava

What can the government do? Together with the Verkhovna Rada take authority from the regional councils to coordinate and issue special permits. I would not like it to happen.

To which body, in your opinion, could this authority be transferred? The experience of what countries would be useful to borrow for its establishment?

Big foreign companies, which we would like to attract, will not spend three years trying to get permits. In the world, there is an alternative method of attracting them: PSA, where the government or the interdepartmental commission according to production sharing agreements becomes a "single window" and provides support to all companies that have signed this agreement. Today, the world situation has changed, the interest in PSA is insignificant, although it is possible. We are working on it.

Today we absolutely need the creation of a modern, dynamic agency of the State Geonadra. Its current format does not meet the requirements of time. Countries that have set for themselves the goal of developing and changing the oil and gas industry usually even have a separate institution for them. As in Canada and the USA, where there is a special department.

Business emphasizes the need for transparent international auctions on new oil and gas fields. How does the Committee participate in the acceleration of the long-awaited launch of this process?

Legally, in Ukraine everything is possible today. Including correct and transparent auctions. We, as politicians, engage in speeches, requests, and the blocking of wrong distributions. And we will continue to do so. At the same time, I have to state that this is the responsibility of the executive power, the State Geonadra and the government. And here



it is important to have political will. Direct investments come under the personal political guarantees of the leaders of the state, where they say: we start an auction, make it transparent, we ensure the absence of fraud. And the Committee, as a de facto controlling body in the Ukrainian government system, will be involved in the analysis of all documents, announcements, etc. We require auctions.

This business is traditionally very closed, there are a lot of rumors about it. It usually belongs to certain "families" in the country, because it is associated with the possibility of obtaining sites, extraction. Therefore, the creation of the Association of Gas Producers was the first step towards clearing the business. After all, companies form common, and not only profitable for them, requirements, adopt rules for disclosing information, expect equal competition opportunities for themselves from the government.

Today, our task is to create a competitive environment for national and foreign companies to see the best prices and offers. So I'm for auctions. Without any exceptions. Even for state-owned companies. The only thing... As long as we force state companies to sell gas at a certain price, and there are expectations in society that they are producing gas for the needs of the population, I, as a politician, take into consideration this circumstance. At the same time, I'm sure: you need to enter the market. The state's social programs must be implemented through targeted subsidies, but the gas has to be extracted by the most efficient, dynamic, fashionable, modern, technologically mature companies. If there is a state-owned company, it is great, if it cannot compete with private ones, then ... Today, we need gas, not socialist slogans. ■

SNUBBING TECHNOLOGY'S GREAT PROMISE

**YAROSLAV KACHURIN,
GENERAL DIRECTOR OF KUB-GAS**

Have foreign managers been engaged into governance of KUB-GAS, one of the biggest independent producers with foreign investments?

Three foreign managers participate in coordination of the major technical, legal and economic issues.

Company's operative governance is carried out by Ukrainian managers.

What are the company's sources of funding? Do you use loaned funds for company's development? Does the company cooperate with Ukrainian banks?

The company funds its activity from own resources. Currently we do not use loan funds for developing our company. Being a legal entity, we do work with a number of Ukrainian banks and use the products which are typical for many other companies – cash management services, salary projects, etc.

What are the company's plans for new drilling? Does your company involve contractors for these works? Are there any foreign companies among them?

Our plans for current year include drilling 2 or 3 new wells and bringing them into production. More information will be available after we receive the results of drilling the first of the projected wells. This is a very capital-intensive and complicated process.

In our operations we prefer to select the most professional contractors based on their experience and performance results. Currently we are fully satisfied with quality of services rendered by Ukrainian contractors.

What is the dynamic for gas production and sales within few recent years?

Currently we are actively engaged in increasing the volume of geophysical exploration of existing licenses in order to increase its production output.

Hydrocarbon production stimulation method is the one that KUB-GAS uses for effective and rational production. The company exercises permanent control over the well condition and invests considerable resources to keep them effective.

As far as it concerns the industry as a whole, thanks to active position taken by the AGPU (Association of Gas Producers of Ukraine) the state has been involved into the process of solving the problems which exist in the industry. Hopefully such cooperation will



lead to increase of internal gas production within the nearest years.

With regards to gas sales, thanks to reverse gas sales procedure, price has become relatively stable. We can orient ourselves to the European Hubs. Until the internal gas pro-



The company invests considerable resources to keep wells effective



duction covers domestic gas demand, no serious competition in the market should be expected, but as soon as the parity is achieved, the situation may change.

What is the average annual funding required for drilling one well?

Average cost of wells drilled by KUB-GAS with total depth around 3000 m, makes around 2-4 million US dollars. Speaking about deep wells

(over 5000m), the cost may be times higher. But prior to drilling, the license area must undergo geological exploration, and development of new fields requires construction of gas treatment and processing facilities, as well as transportation. All these elements require additional costs, so the so-called "average" numbers may considerably differ not only from one company to another, but also from one well to another within the same company.

Does Ukrainian gas infrastructure satisfy the company's need for effective development?

This question should be regarded separately for each company. The fields which have been currently developed or explored by our company are located in optimal conditions in terms of distance to local sales pipelines.

Gas quality has currently become one of the most important factors for operators of Gas Transportation System. This is why one of the main tasks for KUB-GAS is maintaining and improving quality of processed gas. Our company has been permanently improving in this direction.

What is the economic effect from workover using the Snubbing Unit which is unique to Ukraine?

Well killing reduces the rate by 10 or more percent. Killing of low-rate wells may result in complete loss of any gas rate. Using snubbing unit for well workover allows maintain the well rate and prevent the rate drop. KUB-GAS has been using the snubbing unit for workovers in its wells since 2012.

In the beginning of this year KUB-GAS performed workover of wells for another company using the Snubbing unit. Currently we are in the process of negotiations to use our snubbing unit at other objects. Many companies in the industry have revealed their keen interest in innovative solutions, and thus snubbing technology opens wide perspective for us in the market.

What are other innovations and approaches that can help the company to hold the leading positions in the market?

Experience of our foreign shareholder, introduction of the best worldwide practices into the management and operational processes, quality geophysical exploration, new successful drills, as well as professional and highly-motivated team allow the company maintain its leading position be the example for the rest of market players. ■

CHINESE BUSINESS: DOWN TO EARTH IN UKRAINE

**ANDRIY SUPRUN,
MANAGING DIRECTOR OF VUGLESYNTEZGAS OF UKRAINE**

Why is it so interesting for the Naftogaz Group to cooperate with leading Chinese companies on strategic tasks?

For a few reasons.

Firstly, one cannot overestimate the opportunities that cooperation with China and its leading companies opens up.

Secondly, Naftogaz Group is today the largest state-owned power holding. Therefore, the scale of the tasks, projects and objectives of the cooperation should be appropriate. It is the Chinese leading companies that can be called partners of the appropriate level.

Thirdly, it is a purely economic factor. Chinese companies, Chinese financing – one of the most competitive in the market. This is proved by the practice of many countries: the US, European states have recently implemented a lot of joint projects with companies of the People's Republic of China, mostly, at the expense of China.

Well, and **fourthly**, it's just interesting. The Chinese have a different mentality, different from Western standards and business approaches.

Do not forget that working with companies in the People's Republic of China is an additional resource, opportunities and diversification. A diversification always means a more confident position for the company.

After completing a loan agreement with the China Development Bank, does the Naftogaz Group have plans for attracting financing from Beijing in another way?

Yes. But now only preliminary negotiations on this issue are under way, it's too early to talk about the results. One of our main tasks is to convey more information to the Chinese partners about the Naftogaz Group, its capabilities, prospects of cooperation. In this, a lot of help comes from the projects that UkrGasVydobuvannya of the Naftogaz Group is already implementing with the Chinese companies: the total cost of contracts with them exceeds \$400 million. And this, in fact, is the best indicator that Naftogaz Group is a reliable and promising partner. As soon as more information is available, it can be shared.



*The Chinese partners
now are paying more attention
to projects and companies
that are not state-owned*



What are the interests of Chinese companies in the energy sector of Ukraine?

Given the mentality of the Chinese, they are inclined to keep the information closed, it is difficult to talk about what is really going on and which objects or subsectors of the energy industry they are interested in. But from what I know, China is definitely interested in nuclear energy. I know of the intentions of one of the leading Chinese state nuclear corporations to enter a joint project with the concern "Nuclear Fuel". It is also known about the cautious preliminary negotiations with two or three of the largest Chinese companies interested in CHP. For the most



part, it concerns the Kyiv region. In addition, companies of People's Republic of China traditionally have an interest in the Ukrainian coal industry. It is not diminishing, but most of the mines are located in the uncontrolled area of Donbas, and those remaining objects are not so numerous. However, they may be of interest to an investor from China. Clearly interesting for Chinese partners are renewable energy projects, both in terms of supply of equipment and services, and in terms of investments in these projects.

Did the situation with the actual refusal of Ukraine from the credit line for \$3.6 billion affect relations with Chinese partners?

Of course. It is not that the Chinese side became more cautious, it rather became more pragmatic. That is, now Beijing is very picky in negotiations, communications. It is trying to assess how serious the intentions are, which projects are being discussed, how real they are, how interesting for the Naftogaz Group. Interestingly, the Chinese now look more closely at B2B cooperation and cooperation with the regions. They pay more attention to projects and companies that are not state-owned. That is, they try to cooperate with specific enterprises in specific industries, and not only with the state in general.

It should be noted: Chinese business regards relationships very highly. This is their usual practice: "business is built on relationships." But those relationships with partners who have become long-lasting and sincere, are appreciated even more. If, after the signing of strategic documents at the state level, everything used to seem clear and predictable for the Chinese side in the past, now it's not all that clear, given a number of unrealized bilateral initiatives. Accordingly, there is a feeling that today the Chinese partners are paying more attention to relations with specific Ukrainian partners about specific projects than to some general, framework initiatives. ■

THE SUBSOIL CODE AND MARKET RULES

ARMEN KHACHATURYAN,
SENIOR PARTNER AT ASTERS LAW FIRM



Do you see the long-term strategy of the state in terms of attracting investments in the gas-extraction industry? Can we now say that the declarative approach to this question is in the past?

Certain steps to attract investments in the gas industry have been made by the government and the parliament. The law on deregulation was approved, the fiscal regime for new drills was changed, the quota of revenues to regional budgets from rent payments for hydrocarbon production was introduced, the concept of development of gas extraction industry by 2020 was adopted. It is predicted that all these changes will provide a significant increase in the level of gas extraction.

However, it is still early to say that the state policy in this matter is consistent. For example, State Geonadra – the body responsible for granting permits for gas extraction – until recently demonstrated a complete disinterest in transparent cooperation and for over a year actually has sabotaged the holding of auctions on licenses for new sites. The first one after a long break, the auction on obtaining a permit, including hydrocarbon production, is scheduled for August 9, 2018.

There is also a lack of transparency in the regulation of the activities of local councils – the practice of unreasonable refusals to approve sites for the exploration and extraction of hydrocarbons is widespread. Also, it can

not be argued that the declarative principle of the activity of state bodies in the gas-extraction industry is in the past. After all, it is imperative to adopt a number of important and often unpopular decisions. In particular, regarding the maximum liberalization of access to geological data and the introduction of a single model of subsoil use with one institutional leader.

In your legal practice, there have probably been instances of discrepancies of certain regulations related to the development and operation of gas fields. What, in your opinion, should be done to bring the legislation of Ukraine in this regard to a common denominator?

The basic legislative act regulating the main issues of the exploration and use of subsoil is the Subsoil Code of Ukraine, which needs to be adapted to the current conditions of the oil and gas industry and the recently adopted legislative norms. Recently, a number of legislative acts in the oil and gas industry have been adopted, which help to increase hydrocarbon production by reducing fiscal burden and simplifying the procedures for concordance with state authorities. In addition, new rules for the development and operation of gas fields, which replaced the Soviet rules of 1987 and 1971, were approved. The new edition of the Code should take into account current market rules, as well as become functionally the main document regulating subsoil use in Ukraine, including relations between

and auctions, whereas previously the companies worked under Ukrainian special permits. What are the prospects of lawsuits against Russia in this regard?

Russia's actions in the exploration and development of oil and gas fields on the shelf of the annexed Crimea without explicit consent of Ukraine, as well as the adoption of relevant Russian legislation, violate the norms of international law and economic rights of Ukraine. This creates the grounds for litigation and bringing Russia to justice.

Ukraine is already having a consistent fight on the legal front. There is a filed suit against Russia at the International Court of Arbitration in The Hague. The dispute concerns the rights of the coastal state in the Black Sea, the Azov Sea and the Kerch Strait. This is the right step not only from the legal point of view, but also from the state perspective. By initiating the resolution of controversial issues exclusively in the legal field, Ukraine demonstrates to the world its readiness not to resort to political manipulation, but to seek justice in a civilized way. Kyiv has all legitimate grounds to challenge Moscow's actions in court. A recent decision of the arbitral tribunal is noteworthy: it was unanimously approved by the entire composition of the arbitrators in favour of 18 Ukrainian companies and one citizen of Ukraine in their suit against Russia for the recovery of lost investments in the Crimea in connection with its annexation. The court ordered Russia to pay the plaintiffs about \$159 million of



*Kyiv
has all legitimate grounds
to challenge Moscow's actions in court*



state bodies and users of mineral resources. It is the Code on Mineral Resources in the new wording, defining the basic principles of subsoil use, that would allow to avoid discrepancies of the already adopted regulatory acts, including those relating to the development and exploitation of gas fields.

After the annexation of Crimea, Russia seized two thirds of the Ukrainian territory of the Black Sea shelf. Now it is being developed without bids, tenders

damages and to pay the legal costs. Such a decision creates an important precedent for a number of other cases of private and public companies and banks in similar lawsuits, which will be considered in this, as well as in other international arbitrations in the nearest future. Ukraine's compliance with this pragmatic approach in the future is extremely important both for the successful resolution of our claims regarding the Crimea and for the strengthening of Ukraine's reputation in the international arena as a whole. ■

TOP-5 ACHIEVEMENTS

- » Introduction of stimulating taxation for new gas drills
- » Improvement of the permit regime with the adoption of the bill #3096-d concerning the simplification of some aspects of the oil and gas industry
- » Introducing a quota for revenues to regional budgets from rent payments for hydrocarbon production
- » Open access publication of the register of more than 8,000 oil and gas drills
- » Approval of the Concept for the Development of the Gas Industry by 2020



INFRASTRUCTURE

DOMESTIC CONNECTIVITY AND TRANSIT POTENTIAL

Transport infrastructure should serve the main goal – to increase the connectivity of Ukrainian territory. This will ensure mobility of the population, unimpeded movement of goods within the country and for export, and the realization of transit potential.

Progress is noticeable. Even compared to what still needs to be done.

Among the significant positive changes there are: the launch of the Road Fund, the opening of the Beskydy Tunnel, the arrival of Ryanair in the Ukrainian air transport market, the signing of a framework agreement between Ukrzaliznytsia and the US giant General Electric for the supply and service of locomotives of the Evolution series.

The plans are to reconstruct 20 regional airports and synchronize their development with the development of the infrastructure in the region. We are waiting for world operators to enter the ports of Ukraine.

The Ukrainian river remains a problem. It is difficult to find a balance between financing multimillion-dollar river infrastructure needs and the need not to increase the cost of transportation. The compromise bill “On Inland Water Transport” was finally approved by the profile committee of the Verkhovna Rada. Whether it is enough to stimulate the development of river transport – the issue is now open.

The profile ministry is convinced that all positive changes will eventually form a coherent picture – Ukraine will become a powerful transit hub between Europe and Asia and will earn on it. ■



TRANSIT SERVICES: UKRAINE'S TO GAIN

**VOLODYMYR OMELIAN,
MINISTER OF INFRASTRUCTURE OF UKRAINE**

The main goal we are pursuing is to increase Ukraine's capitalization. And this is possible only thanks to infrastructure projects, when the transport industry functions perfectly.

Roads

I see from the business reaction that road reform is already successful and I am happy about it. Recently renovated roads that used to "slide away" every spring have only 10% of defectiveness. For the actually destroyed industry – it's just a super index.

During my recent trip to the regions, I saw that businessmen's eyes are burning. After they became convinced that the Road Fund would take place, they began to invest massively in technology, asphalt and concrete plants. Almost every region of Ukraine has new objects. Now both business and state know that money accumulated in the Road Fund is guaranteed to be put into the roads. This allows you to plan and see your horizons for 2-3 years.

This is how infrastructure projects work – for years to come. The Beskydy tunnel is an example: the largest infrastructure project in Ukraine over the last decade. During this time, several governments and two presidents have

changed. Ribbons on infrastructure projects that are now being launched will be cut off by other people at another time. But without a consistent work today with the idea of the coming decades, – this will not happen.

Railway

There are positive developments in UkrZaliznytsia concerning corporate governance. It is not perceptible for citizens, but it determines the quality of structural reforms.

We also signed a \$1 billion milestone contract with GE to supply locomotives. It will help cut the Gordian knot when suppliers could not send produce out because of the lack of diesel locomotives.

The Government approved the National Transport Strategy of Ukraine by the end of

2030. I think that Ukrainians will be pleasantly surprised that we do not stay at the level of Soviet carriages and "shattered" minibuses that run on horrible roads. The guarantee that we are developing normally is the presence of large companies in Ukraine.

Airports

The second milestone contract is Boryspil and Lviv with Ryanair. Even Ryanair did not expect such an outrage around itself: all tickets for 50 euros for the season have already been redeemed.

This will lead to a shift in the development of airports. We want to launch a state program like the Road Fund to build runways at 20 airports within five years.

Today, Ukraine has 16 million passengers a year, but it can easily have 40-50 million, when not only Boryspil, but also other airports will "fly". Because the growth in the flow of passengers is crazy: in Lviv and Zhuliany it is up to 50%, in Boryspil – up to 20% (one of the three best-developing European medium airports). The estimated cost of building a runway is 2-2.5 billion UAH. In Europe, the payback of such projects is 10-15 years, in Ukraine the

« *The road reform
is already successful* »



Ribbons on infrastructure projects that are now being launched will be cut off by other people. But without a consistent work today – this will not happen



payback period for the construction of airports is 5-7 years. We proceed from the simple figures: 2-2.5 billion dollars – on the runway, 20-40 million – on the terminal.

The trend is obvious – people want and will fly. In the world of new technologies, human becomes the slowest element. Under the conditions of the fourth industrial revolution, it is necessary to accelerate, so that you do not look through the dirty window, as people travel in Hyperloop.

Ports and Hyperloop

There are joyous news from the maritime industry. In addition to what has already been done (the creation of the Maritime Administration, a 20% reduction in port duties and tariffs), we are expecting a contract with Hutchison Ports. This is a global operator that must work in Ukraine.

I also believe that DP World will take part in the tender for the concession of the port “Yuzhnyi”. In addition, their plans for Ukraine go much further. They are ready to invest in the port area, as well as in high technology. DP World is the main investor in the Hyperloop freight direction. We had very successful talks with Richard Branson (CEO Virgin Hyperloop One, which in partnership with DP World recently created a new Hyperloop CargoSpeed DP World). We have something to offer: space, alloys, Magnetic Levitation which is a prototype for Hyperloop.

We must create the future. Otherwise we will stay in the past forever. First, we need to develop a scientific basis for this project in cooperation with the National Academy of Sciences of Ukraine. Then we will move to the construction of the testing site, but, according to an optimistic forecast, not earlier than 2019. Many countries moved towards this for 5-10 years, we will try for two. If things are going well, we will build in Ukraine, if not – Ukraine will be the supplier of components or the entire system to the world. In my opinion, it is much better to export a Hyperloop capsule, which is equivalent to half the cost of exported Ukrainian grain.

River transport

Finally, the transport committee supported a law that suits everyone. If the company “Nibulon” continues to block its approval, despite the fact that all their comments are taken into

account, this will be a clear signal – both for Ukrainians and for external partners, which include loans for “Nibulon”, – the company concentrates efforts on monopolization of the market. Now there are nine companies that are ready to invest not only in rivers and transportation, but also in shipbuilding, river infrastructure, creation of new jobs along rivers.

This is a huge and correct business, because river transport is the most environmentally friendly and cheap way of transport.

Ukrposhta

I am happy with Ukrposhta. The recent decision of the Cabinet of Ministers on granting it the status of a customs operator will increase the possibilities of Ukrposhta not only as the sender of parcels, but also as a transit agent. Previously, containers from China, the United States were shipped to Poland and the Baltic countries, unpacked there, and only then they were sent to Ukraine. Now we will be a player in this market.

All these pieces of mosaic eventually have to make a single picture – Ukraine will become a hub between Europe and Asia, earn on transit service, not on raw materials. I believe we will do it. ■





GE IS MAKING UKRAINE A PRIORITY

**VYACHESLAV FEKLIN,
GE UKRAINE COUNTRY MANAGER**

In Ukraine, the US giant, General Electric, is mainly note for signing a framework agreement with UkrZaliznytsia, the national state railway corporation. What kinds of joint plans do GE and UZ have and what exactly does this agreement cover in the way of projects?

The Framework agreement with UZ was signed in February after more than two years of negotiating, first with Oleksandr Zavhorodniy, then with Wojciech Balczun, and finally with Yevhen Kravtsov, who finally made this agreement happen. We also signed the first contract for the supply of 30 innovative GE Evolution-series diesel locomotives. One of them was successfully tested in Ukraine back in 2016.

What makes these locomotives better than others?

Evolution locomotives have a number of advantages: they use 20-25% less fuel, and more than 80% less lubricant. Maintenance intervals have gone from 3 days to 90, and the temperature range under which they can operate properly is very wide. This is our newest engine and single section Evolution locomotive can replace a two section locomotives

Ukraine currently uses, literally minimizing breakdowns twofold.

OK, so these locomotives are part of the first phase. What's next?

These 30 locomotives will begin to be delivered in the second half of 2018. According to the agreement, we are also supposed to start a project to modernize existing locomotives this year. UkrZaliznytsia has locomotives that still can be modernized and certain components of them can still be used: the frames, the wheel sets, and so on. If we change the engines, the cooling and drive systems, we can bring Ukraine's locomotives up to a pretty

high level of reliability and efficiency. And of the most important thing in the modernization project is that we will be able to reach a high level of localization.

We also plan to cooperate with UZ on local maintenance services for these first 30 locomotives, as well as for future deliveries.

Does this mean setting up a network of service centers to maintain GE locomotives?

Right now, we're talking about using one service center in Ukraine. But once the service agreement is signed, a spare parts warehouse will be set up and training will begin for



It's important to change the perception of Ukraine and persuade people through this kind of success story that Ukraine is a country you can work with and invest in





Ukraine had purchased fewer than 8 new locomotives since it declared independence. So there's an entire generation of people who have never seen a new locomotive and they don't understand that there's an alternative to repairs



Ukrainian specialists to service these locomotives.

We're just in the first stage of this relationship and it's very important that we keep moving forward as agreed. It's a multistep framework agreement, and everyone understands that. When we signed the Memorandum of Understanding initially, then a Letter of Intention, you could sense that some experts were a little wary. Now we have signed this agreement and it's important that we be able to actually carry it out. This will be another powerful message to foreign companies and countries that Ukraine is a reliable partner.

What kinds of risks does GE see, that might get in the way of completing the agreed projects?

There are always risks. I won't get into politics, which is beyond the bounds of a commercial company. But we definitely sense the political stability since the Revolution of Dignity, although the country risk remains relatively high for objective reasons. But I agree: it's important to change the perception of Ukraine and persuade people through this kind of success story that Ukraine is a country you can work with and invest in.

First of all, our risks are connected to the commitments we have taken on. For instance, localization. Localization means getting local companies involved in carrying out works and providing parts for locomotives. But this is a locomotive with the GE logo on it. It carries our company's reputation. GE itself has a stable process for selecting suppliers and has

very specific requirements of them. Moreover, the Foreign Corrupt Practices Act makes us responsible for our suppliers and partners to uphold the law. We won't work with any company that has a whisper of a suspicion of engaging in unfair competition or corruption—and not just in Ukraine.

In early June, we will hold a Supplier Day in Odesa, where we will invite all the companies who might potentially get involved in this project. So far, we've invited nearly 40 Ukrainian companies.

The Government of Ukraine got not just good marks for signing the contract with GE, but also some lumps, the main criticism being that the agreement is more favorable to GE. What kinds of side benefits will Ukraine get, besides an upgraded locomotive fleet? How were you able to persuade the Ukrainian side in negotiations?

The impact of localization should not be looked at only in the framework of this project. Once we find reliable partners in Ukraine, this cooperation will open the way for them to be suppliers for GE projects in other countries as well.

Ukraine is a competitive country. We understand that the cost of labor is currently somewhat lower than in some other countries, but it also offers quality and traditions. This means that Ukrainian companies can compete with others to become global suppliers. So we're not just taking 30 locomotives, and eventually 225, but potentially thousands.



In fact, Ukraine is also getting an opportunity to increase its export potential. Everything should be looked at through the multiplier factor. It's not just about locomotives as a way to increase the profit margins of the Ukrainian railroad. Agribusiness can't transport a big chunk of their products because of the lack of locomotive tractive force, so this

If I'm not mistaken, Ukraine had purchased fewer than 8 new locomotives since it declared independence. So there's an entire generation of people who have never seen a new locomotive and they don't understand that there's an alternative to repairs.

This is the first project on this scale in Ukraine in terms of buying locomotives. The

negotiations, we already invested the cost of one locomotive in Ukraine, in the cost of travel and accommodations.

With the Kriukiv Rail Car Plant being considered as a possible localization partner for GE, what more are you at liberty to tell us about this?



will allow the problem to be fixed. Ensuring that these companies will gain export opportunities will encourage additional investment in the agro sector. And that's just one example. This is a spiral effect, where interconnected events lead to greater economic potential and quality of life in the country.

We spoke about the problems caused by the shortage of locomotives in the last TRUMAN Report. Business has been pushing for a long time for private locomotives to get access to UZ's infrastructure. Such a development would also be interesting to GE. How much are you lobbying through business associations or on your own to get the bill on rail transport, which would make this possible, passed?

Various countries have had success in a variety of ways here: in the US, it's all private stock, whereas in Europe and India, it's all state-owned. The point is to ask, what do exporters need? They need to be able to get their products to markets in Europe, the Americas, and so on. Whether the train hauling this freight has the UZ emblem or the emblem of a private company is a side issue.

Your negotiations with UZ took more than two years. What was missing in 2016 and what made it possible to speed up the process at the end of 2017?

Our 24/7 intensive negotiations began about 5-6 months prior to the signing of the agreement. But to get to the point where we had a specific agreement took quite a lot of time. In 2016, we were actually testing a locomotive to see whether this technology would work on our rails.

first thing we had to do was to persuade people that it actually worked.

In the second year, the key point for us was to find a solution to the value story, to show that it made economic sense for Ukraine to agree to invest in locomotives. After Yevhen Kravtsov came to the UZ team, we began to put together the actual agreement.

GE locomotives are not exactly cheap. What advantages do they have over other manufacturers to merit the difference in cost?

It's always important to compare apples to apples. This is a very specific kind of product that you won't find a completely identical one of, made by someone else. But I can assure you that the price of the locomotive underwent a long discussion. When you count in the taxes and localization, the price was more than attractive for Ukraine.

Was there a little discount?

Of course. And moreover, I even joke that while the GE Transportation team was in ne-

Right now, we're considering several potential approaches to localizing certain work of locomotive production in Ukraine. But in terms of modernization, we're open to consider any manufacturing facility in Ukraine as a potential partner. The requirements for them are somewhat different: it's not just about working with a completely new piece of machinery. There's plenty of work even just restoring the leftover parts, like frames, wheelsets and so on. Affiliated UkrZaliznytsia factories in Dnipro and Lviv are already working on this. But we have a much broader list of potential partners.

GE Transportation is not the only division operating in Ukraine today. What other joint project with Ukrainian partners are being considered and in what fields? Has GE been invited to work on large-scale infrastructure projects?

All of GE's divisions have a presence in Ukraine: power, transport, aviation, oil and gas, and healthcare. The GE Power division offers cutting-edge technologies, for both traditional and renewable electricity generation.



*For GE,
it's important to fulfill
the agreements achieved with the Ukrainian side.
It's a matter of reputation*





If we combine Ukraine's aircraft building experience and traditions with GE's technologies, Ukraine could become very competitive indeed on the global market



We've started the first stage of the project with DTEK to build the Prymorskiy Wind Farm with a capacity of 200 MW. But that's just one project that we've launched. The situation is now favorable because Ukraine has taken a series of steps that have led to a real boom in renewable energy.

In healthcare, GE's been in Ukraine for a long time. We've installed more than 500 'big' units (CT, MRT etc.) of modern medical technology in Ukrainian clinics. We welcome the reform of rural medicine and we see quite a few prospects for working in this area.

GE is a world leader in producing aircraft engines. The new AN-132D has GE equipment. If we combine Ukraine's aircraft building experience and traditions with GE's engine and other technologies, Ukraine could become very competitive indeed on the global market. We're hoping to find opportunities to expand

of cooperation with Antonov Company. Maybe next time we talk, it will be about another important topic, not locomotives.

What kinds of good examples can you tell us about working with gas extraction companies operating in Ukraine?

GE's involved in both extracting and transporting natural gas. Back in the 1970s, Ukraine equipped its natural gas pipeline network with compressor stations powered by 10-25 MW GE gas turbines. Nowadays GE supplies new equipment for reconstruction of the Compressor Station Bar for UkrTransGaz. Ukraine's biggest chemical companies, such as the Odesa Portside Plant, use GE steam turbines and compressors. UkrGazVydobuvannia uses a GE-made Ajax compressor. GE's Oil & Gas division recently merged with Baker Hughes to form BHGE. We've improved our portfolio consid-

erably and now have more options to cooperate with both state-owned and private gas production companies.

Just recently GE announced plans to sign a merger between GE Transportation and Wabtec. This will establish a new global leader in the manufacturing of railway equipment, services and software for the industry. This is the giant that will be working with UkrZaliznytsia in the future.

What are your thoughts about doing business in Ukraine? What kinds of complications arise and what makes Ukraine far more competitive than other countries where GE operates?

Objectively, Ukraine is growing. This is evident from the Doing Business indicators and the Corruption Perception Index. I'm glad that in all the time I've managing GE business in Ukraine, I've never run into corruption. However, the country's GDP is not growing fast enough. The permits system needs to be simplified; Ukraine should continue deregulation and fighting corruption.

GE is committed to always following through on all of our commitments to our customers and partners. For us, it's important the Ukrainian side mirrors that approach so that together we can build a long-term, mutually beneficial strategic partnership. It's a matter of GE's reputation and Ukraine's as well. Ukraine is a priority for General Electric and we look forward to a long and fruitful partnership. ■





A WELL-BALANCED WATER TRANSPORT BILL

BORYS KOZYR, PEOPLE'S DEPUTY OF UKRAINE, DEPUTY CHAIRMAN OF THE VERKHOVNA RADA OF UKRAINE COMMITTEE ON TRANSPORT

The draft law "On Inland Water Transport" has a certain history. It has twice been submitted to the session hall for consideration. During the work on the draft law, unanimously adopted at the Committee meeting on May 16, a compromise position was agreed upon: the removal of the river tax from it and the creation of a new enterprise for servicing river waterways, the definition of the exclusive right to operate coastal river transport under the flag of Ukraine and ships under the flag of the countries with which the relevant bilateral agreements were concluded, as well as the prohibition of any access to the river routes of Ukraine under the flag of the aggressor country. I am deeply convinced that the bill "On Inland Water Transport" is absolutely balanced and ready for submission to the parliament.

10 INNOVATIONS IN THE TEXT OF THE DRAFT LAW

1. The strategic infrastructure of inland waterways will be on the balance of one enterprise, including navigable gateways, navigation equipment, river information system, navigable channels;
2. The operation of the inland waterway infrastructure for carriers will in fact be free of charge: cancellation of the lease, opening bridges, special water use;
3. Port fees for seagoing ports for vessels performing river / mixed transportation will be canceled;
4. Establishing of economically reasonable and sufficient in volume mechanism for financing the maintenance of the river at the expense of the state budget, channel fees and part of the profits of hydroelectric power stations;
5. In accordance with Article 19 of the Constitution of Ukraine, the functions of the current central bodies of executive power in the field of inland water transport (the Ministry of Infrastructure of Ukraine and the State Service of Marine and River Transport of Ukraine) are fixed;
6. The rules of the EU directives and regulations in the field of river transport are fully implemented in accordance with the Association Agreement between Ukraine and the EU;
7. Creation and empowerment of the Council on the operation of inland water transport to resolve the strategic issues of river transport development. It will include key players in the river transport market, as well as representatives of the profile public organizations;
8. The demonopolization of pilotage services in inland waterways is determined;
9. Establishment of a detailed mechanism for simplified registration of vessels (small, river and sea) with the restriction of ability of the relevant executive authority regarding the refusal or delay with the registration process;
10. Limiting the number of inspections of river vessels to shipping inspections to the minimum required, in accordance with EU legislation, that is, once a year. ■

HOW NOT TO GET OUR RIVERS GOING

**ANDRIY VADATURSKIY, PEOPLE'S DEPUTY OF UKRAINE
HEAD OF THE INTER-FRACTIONAL DEPUTY ASSOCIATION
"FOR THE DEVELOPMENT OF RIVERS OF UKRAINE"**

How to balance the sources of funding for river infrastructure development so that it stimulates river navigation without raising the freight tariff and, at the same time, covering many millions that are needed?

Only by creating an efficient, economically fair system of redistribution of profits of the state monopoly of the Administration of the Seaports of Ukraine. We propose 3-points plan:

- 1) 80% of the profits to be used for the maintenance, operation and development of the sea waterways of Ukraine;
- 2) 10% – for the maintenance, operation and development of river waterways of Ukraine;
- 3) 5% – to allocate to the budgets of local communities where seaports (terminals) and river ports (terminals) providing transport operations are located, in accordance with the share of exportimport transportation in ports, respectively.

The overriding objective of the Law of Ukraine "On Inland Water Transport" should be to create conditions for intensive development of inland water transport, including boosting shipbuilding.

Inter-fractional deputy association "For the development of rivers of Ukraine" offers a model that is used in the agrarian sector. Namely, the compensation: to the first owner of the vessel – a part (40%) of the initial cost of inland navigation vessels built in Ukraine, as well as part of the rate (70%) for bank loans and IMF loans for construction and (or) the first acquisition of IWT vessels, which are built in Ukraine; to the shipowner – the part of the cost of fuel that he or she has acquired in the customs territory of Ukraine or brought to the customs territory of Ukraine and that was used by his or her vessels for coastal sails on inland waterways (except for the use of vessels for personal purposes), in the amount of the estimated amount of excise tax.

Such an approach will stimulate the development of river infrastructure, cover the multimillion needs of the river, and in no way increase the cost of transportation.

What, apart from the adoption of the Law "On Inland Water Transport", holds us to stating: the Ukrainian river has started to work?

The Ukrainian river will not work after the adoption of the law as such. The price for transportation by river routes is not competitive with the price of alternative modes of transport, which much faster deliver goods and passengers to destinations. As a result, in Ukraine only 3% of goods are transported by water transport, and the average distance of road freight transport reaches 597 km, which destroys Ukrainian roads.

The experience of developed countries is completely different.

The task of the state is to direct cargo transportation to the river to save the state of roads. This can be achieved by restoring the competitiveness of the river and reducing the cost of transport by water.

What practical steps to integrate Ukrainian inland waterways into European inland waterways can be expected by the end of the year?

Ukraine has signed agreements with Belarus (1998), Croatia (2004) and Germany (1992) regarding the access of vessels of contracting parties to their internal waters. Today, the Ministry of Infrastructure, instead of working on international agreements on mutual admission, is trying to launch all the vessels of the world, including offshore zones. Such an



approach is equivalent to the admission of all individuals to economic activity in Ukraine without paying any taxes.

For long we have not been hoping that the Ministry will take any steps to integrate Ukraine's IWT into European waterways.

What is the solution to the problem of fleet shortages that you can offer? How will the issue of access to Ukrainian rivers of vessels under a foreign flag be regulated?

Inland waterways shall be operated by vessels sailing under the State Flag of Ukraine, foreign vessels shall be allowed in accordance with international treaties of Ukraine on the basis of reciprocity.

Today there is no shortage of the fleet, because the river remains uncompetitive.

River transport infrastructure is in dire need of investments, including foreign ones. What conditions for their arrival and development have been created?

The only option for the arrival of funds and their development is the assignment of river retention functions to the State Enterprise "AMPU", which already owns a dredging fleet and manages the river information service, as proposed by draft law 2475a-4.

In what perspective, will we be able to say that the transit potential of Ukrainian rivers is realized at a percentage that is not a shame to talk about?

It depends on a number of factors, ranging from the net cost of transportation, its competitiveness with alternative land modes of transport, the state of water infrastructure, in particular, in terms of maintaining the guaranteed depths throughout the international E-40 waterway, ending with the tax burden on river carriers.

It is enough for the state to define river and aviation transport as a priority, adopt a state program of restoration of their competitiveness by reducing the cost through compensation of part of the cost of transportation, in particular, within the framework of the tax paid by the carrier, and already tomorrow we will all fly inside Ukraine, the vessels will take the goods from the roads to the river, and cars will get high quality roads! ■



KYRYL NOVIKOV,
AVIATION EXPERT

AIRPORTS: THE KEY TO REGIONAL GROWTH

The Ministry of Infrastructure plans to reconstruct 20 airports. Why does Ukraine need so many?

K. N. The classification of airports in Ukraine today requires further clarification, since there can not be Uzhgorod and Kharkiv, Lviv and Cherkasy in one basket. Each airport has its own history, its capabilities (as for the reception of specific types of aircraft) and prospects. Firstly, it is necessary to focus on putting into operation airport facilities that were reconstructed earlier. Secondly, to divide central airports and regional ones and for each of them to approve a marketing and strategic development plans, to make calculations of the feasibility of creating new or reconstruction of existing facilities. Extremely important is the transition to cement-concrete coverings instead of asphalt-concrete, which is still present in most regional airports. But the main thing is the need for funds. Decentralization has allowed to increase funding, but this is not enough. There is a need for substantial funds, with the involvement of credit lines of the world financial institutions.

The draft of Airspace Strategy until 2030 proposed to liberalize the market of handling services (ground handling) at airports. It is believed that thus small regional airports, which themselves often provide these services, will simply not be able to compete.

B. D. Liberalization of the market of handling services is an important part of the approach of the domestic market of aviation services to the practice and approaches of the European Union. But one should understand that the EU has come to such a model by transforming the whole industry and creating the appropriate tariff and regulatory authorities. In Ukraine, the tariff commission on transport has not yet been created

Therefore, if any investor wants to take an airport under control or concession, he or she must understand and be able to calculate all economic components of such a project. The return of capital and potential

income in small regional airports is an important revenue item, since they mainly provide such services themselves. There is a need to liberalize the ground-based services market, but its implementation must be sound and cost-effective, and ensure the maintenance of a high level of aviation security at regional airports. The state should determine the boundary conditions and the passenger flow in them, after which the market for ground handling should be liberalized for suppliers of handling services.

What is your opinion on the proposal to abolish state regulation of airport charges at regional airports?

B.D. Simplifying the regulation of airport charges in general has a positive effect on the development of air transport. After all, the current regulation is not perfect, although it is relatively balanced. At the same time, today it concentrates significant powers for manual regulation of the ministry. Therefore, on the one hand, the loss of economic stability of airports in the area of profitability can not be tolerated, on the other hand, it is necessary to ensure the flexibility of economic competition in the region and the possibility of introducing various tariff policy models.

According to an optimistic scenario of the Strategy's implementation, will it not lead to the airline industry being disconnected from other areas of the economy. What is the point in reconstructing the airport if there are no other types of business in the region?

B.D. Regions can get powerful growth and economic development opportunities in the form of airports, but only with a coherent strategy. Otherwise, there may be a situation where two airports are oriented to one market (as in Mykolaiv and Kherson), and they will weaken each other in a competitive struggle.

Airports are an important economic center of growth and development of the regions. They ensure the activation of business connections



BOGDAN DOLINTSE, HEAD OF AVIATION COMMITTEE OF THE ALL-UKRAINIAN CENTER FOR TRANSPORT INFRASTRUCTURE REFORMS



Yaroslav Mazurets
Director of the “Vinnytsia” airport

The airport cannot develop separately from the region, the city, because we are part of the common economy. But this requires solving several problems, the main of which is the level of infrastructure development. It is morally outdated, because it was created 30-50 years ago. During this time, the aircraft industry has made a step far ahead, but the infrastructure remained in the Soviet past: for instance, runways were built exclusively for Soviet airplanes. Today we have Boeings, Airbuses that require better coverage, with better quality indicators. In this context, our airport and all regional airports must meet the current requirements of airlines and international safety regulations.

Ukraine has developed a program for the development of airports by 2023. Our airport is there among the regional ones, it needs financing and infrastructure improvement. Therefore, we are moving according to the plan, we are currently developing a project for the reconstruction of the airfield parts, project work is under way. Of course, we count on state money – that would be perfect.

We are well aware that airports in neighboring regions are our competitors. Zhytomyr now intensified the work, Khmelnytskyi, Ternopil. In fact, an airport means great opportunities. And the more of them there will be in the regions, the better.

and the attraction of tourist flows. But such an effect is possible with the establishment of appropriate infrastructure, transport logistics with the airport, facilities for servicing passengers and tourists in the region. Only then you can get a multiplier effect for the region’s economy from each dollar invested in the infrastructure at a level of 2.5-3 dollars.

Recently, the construction of the third capital airport in Gostomel has been actively discussed. At the same time, they want to develop an airport in Bila Tserkva, while some Boryspil terminals are idle. What is the business?

B.D. “Zhulyany” has limited growth potential, because it is squeezed within the city. Every year the EU raises requirements for reducing noise and emissions into the atmosphere within cities, so in the long run, it can lead to the closure of “Zhulyany”. (As, for example, this is happening in Istanbul).

If we focus on the dynamics of the development of the air transport market according to the European model, based on example of, say, Poland, then for several decades, Kyiv will have a vital necessity for the third airport. It is logical that one of them may be Gostomel or Bila Tserkva. But the development of the appropriate infrastructure for the third airport needs to be done in advance, because it is a long process of creating a technological base and infrastructure for passengers.

If we talk about existing terminals in Boryspil, then some of them were designed unsuccessfully: they were either initially planned as capacities for freight traffic, or built on the technology of the 1950s, so they are morally outdated. The proposed concept for the development of “Boryspil” provides for the creation of a powerful transfer airport hub with a potential growth of up to 50 million passengers. It will be connected to Terminal D, which will serve domestic flights in the future, when the passenger flow is approaching 50 million. This model is the world’s most common practice for the creation of airport hubs.

K.N. The third capital airport is possible, if it has a clear specialization. For example, it will be a low-cost airport. Taking into account the fact that investments are needed not only in the construction of the terminal, but also in creating a proper highway to Kyiv, then it is likely that such an airport has a right to exist. ■

TOP-5 ACHIEVEMENTS

- » Start of the Road Fund's work
- » The making of the framework agreement between UkrZaliznytsya and General Electric
- » Low-cost carrier Ryanair's coming into Ukraine
- » Reduced port rates and fees
- » Opening of the Beskydy tunnel



AGRICULTURE

REALIZING POTENTIAL THROUGH NEW MARKETS, APPROACHES AND TECHNOLOGIES

The main task for the domestic agroindustrial complex is to increase the share of value-added products in the structure of exports. This can be achieved through the addition of processing, the organization of optimal logistics chains, the emphasis on production technologies and increased marketing efforts. Experts, officials and businessmen agree upon this.

It is also time to solve “chronic” problems of the industry through: fighting the “grey” grain market, the optimization of agro-logistics, the predictability of policy in terms of VAT refunds, and the improvement of phytosanitary procedures.

Despite the state-created incentives for livestock development – financial, organizational, – the industry can still be considered underinvested. As a result, part of the farming complexes cannot compete in foreign markets with high quality standards. At the same time, there are diametrically opposite examples: when Ukrainian agro companies not only export meat of the highest quality, but also share the technologies of its production with European counterparts.

The entry into insufficiently prioritized so far markets – Africa, Southeast Asia, – can be the breakthrough for Ukrainian agroindustrial complex. Distant and not always understandable to Ukrainian business, they are growing fast and forming huge demand. There are prospects in the US and Canadian markets, which scare off Ukrainian agroexporters due to high competition, but attract with great opportunities, particularly in the organic products market.

The evolutionary development of the agro-sector encourages us to further strengthen the development of agrarian technologies. Ukraine already has something to be proud of: yesterday’s prototypes of innovative developments for AIC are coming into mass production for export. And this conjures up the interest of companies and funds from the US, Europe and China in Ukrainian inventions. ■



HOW SUBSIDIES DISTORT THE MARKET

ANDRIY YARMAK, ECONOMIST OF FAO INVESTMENT CENTER, FAO/EBRD PROJECT MANAGER FOR EXPORT OF UKRAINIAN VALUE-ADDED PRODUCTS

The share of agricultural and food products in Ukrainian exports is about 42%. What should be done to increase it? Is it worth to increase exports at the expense of agricultural products, if the country where the share of the agrarian sector prevails in the economy can be successful only if the value added in agriculture is growing?

This question can be considered:

a) in terms of macroeconomics. Then such a high proportion of agribusiness in exports indicates that the country has a low level of development;

b) in terms of development of the agrarian sector. And there really is something to be proud of. Indeed, the AIC is, in essence, the only industry in Ukraine that constantly develops, despite numerous crises, an extremely unfavorable investment climate and the actual lack of state support. And, perhaps, just owing to the lack of such support.

Why does the processing and, consequently, the creation of value added in the agroindustrial complex remain underinvested?

We should not equate processing and added value, this is not always the case. I will explain using a simple example.

Ukraine made a huge breakthrough in the export of raspberries – we came fourth in the world in terms of net exports of this berry. Almost all of our raspberry exports are frozen berries. That is, the product of processing. But it costs 1.6 euros per kg, and if you export fresh, then you can get 5-6 euros per kg and more. That is, the addition of value in

this case occurs precisely because of the lack of processing. This does not mean that you cannot sell frozen raspberries more expensively, but it is much more difficult than adding value to fresh berries by organizing an ideal logistics chain.

Added value is formed in the consumer's mind, not by adding processing. If he or she appreciates the opportunity to buy fresh berries in a convenient place, in a convenient package, then this is a true value that is transformed into value added.

Let me give another example: Ukraine is the world leader in the export of sunflower oil. But in the countries where we supply it, you will almost never find not only our brands on the shelves of supermarkets, but even a mention that it is from Ukraine. So, in fact, we add very little value to sunflower, transforming it into oil, because we continue to sell raw materials that other people transform into a final product and earn on it.

Consequently, those who sell Ukrainian oil in retail form much more value added than the entire Ukrainian industry of growing sunflower and making oil from it.

Ukrainian agrarians mainly export grain crops, vegetable oils and oilseeds. Are there any significant changes in the export nomenclature? What types of agricultural products are the most promising in foreign markets?

In fact, this is not entirely true. Ukraine is a net exporter of almost all products that are produced here. And Ukrainian agrarian exports are evolving, although very quickly.

First, we learned how to effectively produce and export the most basic commodities – grain and oil. The next step was to export grain and oil products (sunflower oil), but also as raw materials.

Now Ukraine is pushing Argentina off the second position in the global market of honey exporters, which is already an achievement of animal husbandry.

Every year, we rapidly increase chicken exports, although a few years ago we were net importers of this product. Last year, Ukraine received almost 200 million dollars from the export of legume crops, and this is, of course, not including soybeans. The proceeds from sugar exports amounted to about \$280 million. Gradually, we are developing exports of dairy products, red meat and fruits and vegetables (as I have already noted, we are the fourth in the world in terms of raspberries).

Some can argue that exports used to be higher, and this is the case, but they were aimed at Russia, where the quality and safety requirements were minimal. Today we are expanding such exports, which will be much more resistant to trade disasters. One of the largest markets for these products is EU countries, therefore, the whole world opens up for us.

Which markets do you consider underestimated by Ukrainian agroexporters? What prevents us from deliberately working with large markets in Africa, Asia, the Near East and the Middle East?

The most underestimated is, unambiguously, the market for Southeast Asia. And there is a reason for that – it is very far away. But I consider it the most promising, because it is growing at the highest rates in the world. And there we do not even need to win the competition – you can just grow up with the market, because traditional suppliers are growing slower than these markets.

We also underestimate our capabilities in the US and Canada markets. They are also far away, they are agrarian states, but there we can be competitive in many segments. This is especially true for organic and other value added products, like fresh berries.

Many will say that we must pay attention to Sub-Sahara Africa. I agree with that. But for me, the priority is the markets that have high quality requirements. If we succeed there, we can always go to Africa. If we first focus on Africa, then only we will be able to sell only there. This is like Russian market trap.

According to the Ministry of Agrarian Policy and Food, now about 300 domestic producers of organic produce have permissions to supply it to the EU and the US. Is this few or many for Ukraine?

Ukraine is already a major exporter of organic products, mainly to the EU. The problem here is not even in export, but in the fact that the



Added value is formed in the consumer's mind, not by adding processing



technology of production of these products is worked out extremely poorly. This leads to numerous scandals concerning the quality of such products and negatively affects the image of the country. Therefore, in my opinion, in the questions of organic products, the emphasis should be placed on the development of growing technologies and knowledge base formation in order to ensure the sustainable development of this sector. And the export of ours is developing even faster than production. And here, as well, the emphasis is on raw materials, not on the



final product. Therefore, marketing efforts can be greatly improved to get a better financial result from the same volumes.

Last year the Verkhovna Rada has agreed 4 billion UAH of state subsidies for the Ukrainian agro-industrial complex. Is this enough for the largest sector of the economy?

I have always been against any subsidies, especially direct ones. They distort the market, create prerequisites for abuse and unequal business conditions. It is very disappointing that subsidies are not distributed automatically, but in manual mode. In addition, subsidies are never enough – they have steady cyclicality, and more and more is needed each year.

In addition, unfortunately, manufacturers have to spend a lot of time getting access to these subsidies, instead of paying attention to production and marketing technologies. And this is very unproductive. Moreover, large or richer producers often have the advantage, being able to afford to hire specialists who will “get hold” of these funds.

It is important that the distribution of such subsidies is automatic. For example, 300 million are allocated for the development of horticulture. If a producer or a cooperative of producers officially and directly export apples not for processing, but to fresh market (which can be determined by price) outside the CIS, then the latest technologies were used to produce this product. It also means that there were investments in marketing, and this should be stimulated. Accordingly, the manufacturer must receive an automatic subsidy per every kilogram of produce. This is just an example and it is also not the best system.

It is possible to borrow the experience of the USA and Chile, where not the production receives subsidies, but the development of trade and technologies, and this automatically creates the preconditions for the powerful development of modern production of competitive products.

In 2017, Cargill invested \$17 million not in the next farm, but in a startup for growing meat from live animal cells. What is our future? Technology or tradition?

The faster the development of intensive technologies is, the cheaper food products become compared to other products. It helps fight hunger in the world, and at the same time it creates great business opportunities for the development of traditional technologies.

A striking example is the phenomenally rapid development of the organic products market. At the same time, people pay significantly more for traditional geographically-identifiable products, the so-called GI, than for intensive production products.

Therefore, any technology creates additional possibilities and niches, as for products, both sorts will always exist in parallel. ■

FOCUS ON AFRICA

**ARTEM GUDKOV,
DIRECTOR OF PANAFRICAN
TRADING ALLIANCE**

Today, in order to work with Africa, it is necessary to ship up to 200 containers monthly. Not every Ukrainian company is up to it. We have opened a trading house that will enable Ukrainian producers of any products to enter the African market and work directly with customers. This rejects a number of intermediaries. Accordingly, Africans receive an honest price from a Ukrainian manufacturer, and Ukrainians have a unique opportunity to enter fairly large markets with relatively small volumes of produce.

At the moment, nobody knows what Ukrainian goods (not only food but also building materials, etc.) can be actively sold on African markets. Because we have never been there, we can not appreciate the demand and consumer preferences. Therefore, the product should be inside the market to understand how to perform the expansion of Ukrainian goods to Africa.

IT IS THE ONLY EVER GROWING, BUT UNSATURATED PRODUCT MARKET

All the countries are interesting for us in terms of logistics and export structure. The only question is from which to start and with what goods to go. In the CAR, for example, carrying high-margin goods makes no sense. Demand is absent, poor country. But to Nigeria it is already possible to export both agricultural equipment and equipment for processing. But you have to hurry.

Africa is the only ever growing, but unsaturated product market. In Ethiopia, the GDP growth rate is 10% over the past 5 years. In other countries of Sub-Saharan Africa it is 6, 7, 5%.

In Ethiopia, Kenya, Tanzania, Angola there are programs for the development of domestic production. If you are an investor, you produce, recycle or even export manufactured goods within the country, you are exempted from paying taxes for 5-10 years.

AFRICAN COUNTRIES ARE NOT SUBJECT TO THE QUOTA SYSTEM OF THE EU

International experts say that over the next 50 years, Africa will potentially increase agricultural production. These are, first of all, goods that compete with ours: wheat, corn, sunflower, sunflower oil. But, attention: African countries are not subject to the quota system of the EU, the United States, China. That is, if, for example, the chicken is grown in Africa, then as much of it as you like can be imported to the EU outside the quotas. China introduced an additional duty for American meat. And if the meat of proper quality is of African origin – there is no limit.

But not Africans are our competitors, but those who use their power in order to compete in the market. Africans make it possible for foreigners with experience and money to do this, creating a completely comfortable investment climate. And Ukraine loses to African countries in competition for investment.

EXPORTS OF AGRICULTURAL RAW MATERIALS TO AFRICA ARE TEMPORARY

The African market is not the in focus of Ukrainian exports. And it's very easy to prove: the number of official visits to African countries and their level. When the country is in focus, this means that we do not actually go from there: one minister goes away, the next comes in, then the business, the president, the prime minister, and so it goes on constantly. This consistent activity can give the result.

Exports of agricultural raw materials to Africa are temporary until they begin to produce the required quantity by themselves. And we



need to promote goods with added value, which will create jobs for us. It needs an understanding that every billion of exports of value added products have a multiplier effect.

IT IS IMPOSSIBLE NOT TO FIND SALES IN AFRICA

Africa is interesting to Ukrainian business, but there are two problems. The first one is that nobody understands how to work there. Opening a business in Europe or the United States has the risk that it will not work because you will not get sales. There is no such thing in Africa. But there is a risk that you will not learn how to work with Africans. Although they are mentally similar to Ukrainians, they have the same approach to cooperation. Whether it's bad or good – the thing is it is just business conditions.

The second one – it is very expensive to keep the company here. The office, storage, staff – all this will cost 50-70 thousand dollars a month. And for the company to reach a proper level, it takes about a year.

Therefore, we, the PanAfrican Trading Alliance, offer companies to actually divide the costs of maintaining a project between themselves and thus work together on the African market more efficiently. ■

LET BUSINESS TAKE CARE OF BUSINESS

**THOMAS BRUNNER,
MANAGING PARTNER AT "AGROPLUS 2006" LLC**

According to the April 2018 data, imports of pork in Ukraine are three times higher than exports. Mostly Ukrainians bought pork from the Dutch, Germans and Poles. What's wrong with our pigs?

Europe now covers its demand for pork by 120% and has become a very strong exporter. Russian markets are partially closed for them, so Europeans – especially Germany, Spain – are increasing their exports to Ukraine and China. This is not a very good phenomenon for Ukraine. But our industrial complex has existed since not so long ago, as in Germany or Denmark, so we are lagging behind in terms of efficiency. We need to work hard to enable Ukraine to over-export European countries.

How domestic conditions help Ukraine to increase exports?

Many modern livestock farms are being built in Ukraine, which are not inferior to European ones. But there are old ones, whose products do not reach the European standards. In addition, Europe is very afraid of the risk of African plague, and the level of confidence in Ukrainian sanitary services is rather low. And this is a great argument not to import Ukrainian meat. The same is the situation with interesting for us markets in South Korea and China: they are also guided by European standards. When Ukraine succeeds in working at such a high level, huge prospects will be opened up.

How do you think the conditions of doing business over the last few years have changed?

It's easier to work. A few years ago, in the pre-revolutionary period, pressure was felt, there were many inspections "not for the sake of inspections". Business was not perceived, as the experience driving the economy, creating jobs. At the same time, an open dialogue on issues is continuing, the government is much more willing to help and be useful. I can say it from my own experience.

What actions of the state, aimed at facilitating business, are you waiting for? Should one count only on himself/herself?

Responsibility for the business lies, first of all, with the entrepreneurs themselves. As for the expectations of the state, a judicial system should function in Ukraine. When it's working adequately, everything will be sorted out: investors and entrepreneurs will not fear for their property. There are positive changes in this context, but they are not enough yet.

Despite the problems, Ukraine can be called a country of opportunities. The example of "Agroplus 2006" is indicative. What is your competitive advantage in the market?

We consider ourselves as an innovative company (in "Agroplus 2006" piglets are grown without the use of antibiotics – a system called "Tymoshivka" – by the name of the village where the complex is located). The idea of antibiotics was developed by ourselves. It attracts a keen interest at international livestock conferences in Germany, Switzerland. In Switzerland more than 40 companies operate under "Tymoshivka" system. I also participated in the FAO Working Group on publishing a book on reducing the use of antibiotics in pig breeding. We want to promote this topic in the future.

Swiss farmers are working under the "Tymoshivka" system, and how many Ukrainian farmers came to borrow the experience?



So far, no one is particularly interested in it. Although over the past year interest has increased somewhat. Water dripping day by day wears the hardest rock away: over the past 6 years, we have been constantly talking about it publicly, presenting it. I am pleased that after the presentation at a recent exhibition in Kyiv, I was approached by students. In our system of growing pigs without antibiotics, they see their future, because they understand: the issue is relevant to other European countries. Our vision: the lack of antibiotics should become a new standard. It is better for pigs and adds value to meat.

Share with us your company development plans.

We are planning to build another complex and our own slaughter to close the gap in production. This will enable us to brand our products as meat without antibiotics. The price will increase by 30-50%, but it will be really healthy, safe meat. We also want to franchise our business to share experience, promote animal breeding without antibiotics, and develop a brand with clear standards. The introduction of standards for measuring the presence of antibiotics, by the way, is an opportunity to protect ourselves from imported meat. We want to create a national meat market without antibiotics, and then become the largest exporter of pork. ■

LOGICAL EVOLUTION

OLGA TROFIMTSEVA, DEPUTY MINISTER OF AGRARIAN POLICY AND FOOD OF UKRAINE ON EUROPEAN INTEGRATION

It's been six months since our last talk. Has the Ministry of Agrarian Policy and Food of Ukraine significantly moved towards farmers?

Nowadays everyone is hearing about what the so-called "farming billion". Its allocation, in my opinion, is clearly an important indicator of the Ministry's move towards supporting small-scale farming, even compared with the previous year. I am happy with the very principle of this state aid: it provides focused support to corporate movements. And I still think that without the unification in any form, for small and micro-producers it will be difficult to survive. This year, there is a focus to provide support to meat and dairy direction, as well as fruit and berry cooperatives.

I would not want to reduce everything only to the programs of state financial aid. As, in fact, it is a much wider process. The Ministry is paying more and more attention to the development of "policy framework" enabling not only financial but also organizational support for small and medium-sized manufacturers to stimulate the process of rural development. Despite our intensified work in the regions, there is a lack of information and education. We must go to the level of regions or new STC (separate territorial communities) and work there, convey information on technology, the possibility of entering new markets, receiving public assistance, purchase of equipment, the interest investors to cooperate with various directions of Ukrainian agricultural sector.

Is there a plan within the framework of the integrated approach of the Ministry to stimulate the production of value-added products, processing, and the arrival of investments?

Yes, there is. I am convinced that at the first stage export will be a "trigger" for the development of agri-sector and processing. Within the framework of the National Export Strategy of Ukraine, we are developing a sectoral export strategy, because the agro-food component is one of the seven priority sectors of the national strategy. This is a working document, under which we put together a ramified plan of action. Specific steps are fixed to create stimulating factors for the development of processing in which the Ministry of Agrarian Policy, The Ministry of Economic Development and Trade, The Ministry of Finance, the State Service of Ukraine for Food Safety and Consumer Protection, State Fiscal Service of Ukraine and other departments will be involved. What are the incentives for processing? The first one is the creation of the demand on the domestic market and the search for markets for processed produce. Second – financial incentives, for example, payment of VAT divided in time, tax breaks for investment, programs of partial compensation for the cost of domestic processing equipment, promotion of localization of its production.

I am optimistic. I am sure that if there is not any geopolitical or geo-economic upheaval, with the current rapid development of exports, we will achieve our goals.

Recently, a trade mission to Africa has taken place. How should we enter the African markets?

The first government visits are a serious political signal for those countries where we are going. For example, the visit of the Ukrainian trade mission to Ghana, Nigeria, Kenya has been given so much attention. And signing bilateral memoranda at the level of ministries or cooperation agreements between UCCI and their corresponding bodies is significant for African countries, this is the formalization of relations.

We build intergovernmental links and it is important to make connections stable or regular at the level of businesses. This is no longer the task of the Ministry or the government. This is the task of the Ukrainian Chamber of Commerce and Industry, interested business as-



sociations. It is they who organize bilateral cooperation at the business level – discuss further activities, bilateral economic forums.

We continue to arrange for their counter trade mission to Ukraine – of Ghana or Nigeria, Kenya or Tanzania, Angola.

I continue to promote the idea of agrarian attache. Because I see the need for a permanent representation at the governmental level in key export regions. At least 5-10 of our agrarian attaches should be around the world. If talking about Africa – one attache is not enough, at least one in the region.

There is an opinion of experts: if we do not get to the new technological level of production and do not increase the efficiency of management, we can lose EU as a motor of growth of the Ukrainian economy. So how long will the course towards Europe keep us in tune?

These are quite pragmatic thoughts that coincide with mine. According to the most recent information, agrarian exports fell by 4.4% in three months of 2018 and decreased by 201.2 million dollars. As for trade with the EU in this period, the picture is mirrorly different: exports increased by 15% or \$197,5 million. The free trade zone gives a boost.

Why do not I call these thoughts negative, but pragmatic? By analyzing geo-economic processes, protectionist tendencies among major trading players, such as the United States and China, one can predict EU behavior. It is already doing wise things: it is actively initiating and completing all possible negotiations on free trade areas with Mexico, Vietnam, Japan. That is, it tries to fix its trade interests in different regions of the world. I think we need to do the same. The FTA in the medium term will provide us with stability in foreign economic relations and export flows.

Everything in our agricultural sector is evolutionary and logical. In the 90's and early 2000's there was accumulation of capital, "turbulence" of the market, and now we are experiencing interesting times when there is a technological leap, and the development of niche directions or the development of processing. And we have to look 30 years ahead. And to grow thanks to AgTech. Turn startups into real applied agrarian technology that can be sold. Who knows, maybe the best Ukrainian meat is from the test tube? Or it may be better to take the luxury segment of real beef when the whole world tries to feed beef from the test tube. ■



RECIPES FOR A HEALTHIER GRAIN BUSINESS

IRYNA DUSHNYK, EXECUTIVE DIRECTOR OF THE GRAIN AND OILSEEDS COMMITTEE OF EUROPEAN BUSINESS ASSOCIATION’S

PROBLEM	SOLUTION
<p>“Grey” grain market in Ukraine (40% share). Harvest from farmers is bought by intermediaries for cash using forged documents and forged companies. Honest farmers lose their competitiveness, foreign currency earnings do not come to Ukraine, the “grey” grain that can not be identified falls into the legal market under fake documents.</p>	<p>At the legislative level, develop a preventive mechanism that will make it impossible to export agricultural products without returning currency revenues to Ukraine.</p>
<p>The shortage of grain carriages and rolling stock. This year, there was no money budgeted for the construction of grain carriages and it is unclear whether they will allocate any next year.</p>	<p>To give green light to private business, which is ready to renew the fleet of grain carriages and locomotives at its own expense, provided that the appropriate tariff policy is implemented.</p>
<p>Need to improve the existing phytosanitary procedures and their alignment with EU legislation is needed. Today, for the same procedure, companies pay both to surveyors and government agencies.</p>	<p>Bill No. 6673 will lead to the expansion of the network of phytosanitary laboratories, will allow for a reduction in the passage time of the relevant procedures and avoid duplication of operations.</p>
<p>Instability and unpredictability of tax policy regarding the “old sums” of budget returns of VAT. Taxpayers are now deprived of the opportunity to receive the “old” amounts of the budget reimbursement of VAT, which were declared until February 1, 2016.</p>	<p>Business sees in the bill No. 7518 the most practical approach to ensuring the return of its own funds.</p>
<p>Refund of VAT returns for soya and rape exports. In December 2017, the Verkhovna Rada of Ukraine adopted so-called “soy amendments”, according to which the VAT refunds for soya were cancelled from September 1 this year and for rape – from January 1, 2020. It will force farmers to reduce their crop of soy and rapeseed. All this will lead to the loss of the EU market.</p>	<p>EBA called the President to veto the bill No. 7403-d that puts soybeans and rapeseed producers in unequal competitive conditions with producers of other crops as they will lose the right for state financial support through the mechanism of VAT refunds on export.</p>
<p>Lack of the methodology for calculating greenhouse gas emissions during corn and rapeseed production. The absence of reports on actual GHG emissions (CO₂, N₂O, CH₄) in Ukraine is a serious deterrent to the export of maize and rapeseed to the EU. Because of this, there is considerable risk that the European market will be lost for domestic rape (about 85% of exports) and substantially limited for maize.</p>	<p>A methodology that Ukrainian institutions need to develop is required. This problem is within the competence of the Ministry of Agrarian Policy and the Ministry of Environmental Protection.</p>

WHERE FARMING AND IT MEET

**YURIY PETRUK,
HEAD OF AGTECH UKRAINE ASSOCIATION**

HOW TO OPTIMIZE

...COSTS

In the Ukrainian top, nowadays, there are technologies that are paid off in up to two years. For example, fuel control. The sowing begins and a Mr. John takes 50 liters of diesel fuel from his tractor daily. Multiply this for two weeks of sowing and count. So, the cost of a GPS tracker, fuel meter, software and maintenance for a few years immediately pay off.

The next technology, which pays off very quickly, is the registration of the land bank. You can walk or ride around the perimeter of the fields with a GPS receiver and make measurements with up to 5 cm precision. But in the case of hundreds of thousands of hectares, measurements are usually done using satellite imagery. Due to this, you can identify untreated areas and determine the actual area of cultivation, create electronic maps of fields with history: what was planted, how was it processed, what fertilizers were introduced. It pays off at the stage of budgeting, because usually the smaller area is actually processed than indicated in the lease agreements. On the field there is almost always a pit, a post or a bush, a mound, a power line, a road, a track – an area that is not processed. The average budgeting is \$ 300-500 per hectare. By identifying such sites, you can avoid spending money on their processing. And when it comes to hundreds of thousands of hectares, then you can save many hundred thousand dollars. This is all about optimizing the use of available resources.

... LAND USE

Ownership of land stimulates a responsible attitude towards it. There are many small tenants who “take” the field for several years, squeeze the maximum out of it during this time and – goodbye.

Those who have private ownership of land, use it responsibly, it does not make sense for them to exhaust it, because for 5, and for 10, and for 40 years this land will be theirs or they will have the opportunity to sell it.

Due to the lack of ownership of land, many farms do not invest in the most promising technologies (for example, differential fertilization), which usually pays off in 4-7 years. Plus, nobody is sure how the legislation will be develop, if the land is not taken from them, if the agreements are not called invalid. The farmer should be able to plan as, for example, if the fertilizer system is correctly done, the positive effect will be visible in 5 years’ time, at best.

... EXPORT OF TECHNOLOGIES

Currently, three most promising directions for export of technologies in the agricultural sector can be singled out:

Drones and UAVs (unmanned aerial vehicles). Here, Ukraine has a strong position in terms of developing aircraft platforms (AeroDrone, Ukrspesystems, ITEC and many small producers), and offers integrated products for agricultural use (AgriEye) and develops entirely innovative products, such as the KRAY Technologies’ specialized field sprayer, that a year ago was only a prototype, and now it is already being sold in the markets of the USA and Canada.

Various GPS-developments. These are tracking and telemetry systems from BITREK and IT-lynx, antennas and precise receivers from EPS, auto-pilot systems from eFarmer.

Measurement and automation systems: Skok Agro’s soil solidity testing equipment, Meteotrek’s meteorological stations, SmartEP’s greenhouse control systems, automatic fertigators from UAberry.



Also we can add niche software products to this list, for example, GrainTrack for grain traders, and the availability of expertise on working with agricultural sector in Ukrainian outsourcing companies.

... COMMUNICATION

AgTech Ukraine is a branch association that combines two worlds: IT and agribusiness. We work with three target segments: 1) IT and technology companies that offer hardware, software products, services and technology integration; 2) companies operating in the agricultural sector (producers, processors, distributors, traders, vendors of equipment, machinery, seeds, fertilizers, pesticides ...); 3) startups, inventors, innovators and young projects.

Our goal is to be the communicator among these target audiences, to spread the information about the possibilities of cooperation and the potential benefits for the parties. We are developing a market of high technologies for agriculture in Ukraine, we help foreign companies to enter it properly, and for domestic ones we help to find opportunities for cooperation abroad. We also carry out an informational function – representing Ukraine at international events and spreading information on technological innovations and trends in the world on the domestic market.

« *Venture funds from the US, Europe and China demonstrate high interest to Ukrainian AgTech* »

Over the past two years, venture funds from the US, Europe and China demonstrate high interest to Ukrainian AgTech. American investors are especially active now. Their market has become too overregulated and startups are overvalued (in the case of venture capital investments). And on the contrary we are very undervalued. That is, if in Ukraine the normal investment is 300 thousand dollars, then in the States it is 3 million. ■

TOP-5 ACHIEVEMENTS

- » **Beginning of development of sectoral “agro-food” strategy within the framework of the Export Strategy of Ukraine**
- » **The focus of state support on stimulating cooperative movements**
- » **Ukraine ranks first in the export of chicken to the EU**
- » **Adoption in the first reading of the bill #6673, which regulates the conduct of phytosanitary procedures**
- » **The International Finance Corporation (IFC) announced its intention to finance Ukrainian agro-startups.**



TRUMAN Agency

TRUMAN Agency team brings together expertise from various fields: strategic planning, PA&GR, lobbying and international communications.

The Agency takes into account the current vector of Ukraine's development to conduct effective campaigns aimed at solving problems of Ukrainian business and opening new perspectives for the foreign companies in Ukraine.

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